PepsiCo, Inc. Annual Report 1979

COVER: A scene from one of Pepsi-Cola Company's new series of television commercials. The recently inaugurated campaign... "Catch That Pepsi Spirit," reflects the new feeling of the 'eighties, a time in which "We" will be more important than "Me." Realism will win over idealism and people will tend to rescale their lives around patterns of activity that have more to do with being together than with sheer self-satisfaction—a time for friends, family, and community.

PepsiCo, Inc.

PepsiCo operates in five business segments: beverages, food products, food service, transportation, and sporting goods. Each division develops its own plans and goals consonant with its operating environment and PepsiCo's corporate objectives.

The Corporation's steady growth record is based upon high performance standards, a flexible approach to marketing challenges, and the integrity of its products, people, and business practices. Also, the premium placed on results has helped to make PepsiCo products and services brand leaders in the fields in which they compete. Known around the world, PepsiCo is synonymous with leisure time activity. Its marketing and service divisions, all in growth fields, are synchronized to the popular basics of everyday life.

With investments abroad developing into even healthier businesses, and domestic operations more promising than ever, PepsiCo is in solid financial condition and prepared for continuing growth in the unfolding decade.

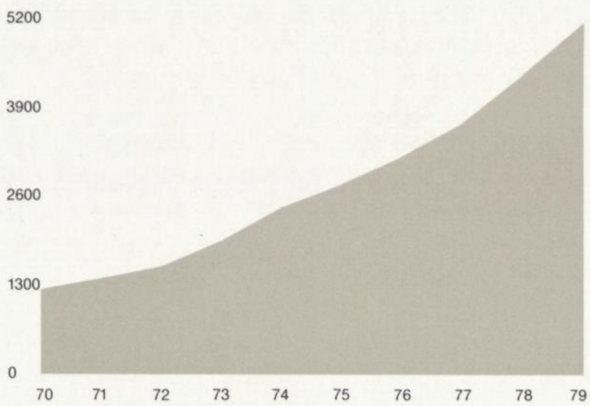
In this report, along with an examination of the financial developments of 1979, is a view of PepsiCo's affinity with the evolving new generation and the role our products and services will have in the economy of the 'eighties.

Table of Contents

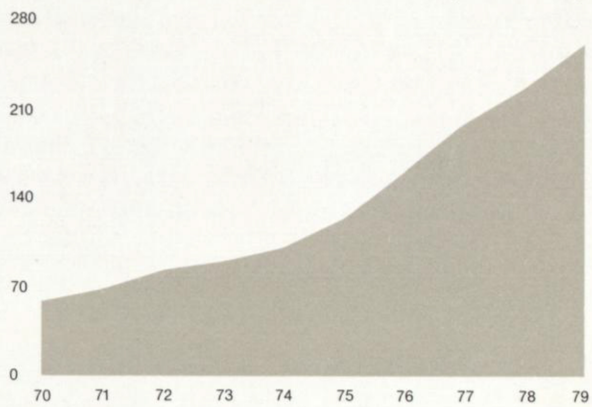
Financial Highlights

	1979	1978	Change
Revenues	**$5,090,567,000**	$4,300,006,000	+18%
Net income	**$264,855,000**	$225,769,000	+17%
Net income per share	**$2.85**	$2.43	+17%
Average shares outstanding	**92,808,000**	92,883,000	—
Dividends	**$102,449,000**	$88,385,000	+16%
Plant and equipment expenditures	**$386,885,000**	$364,539,000	+6%
Long-term debt	**$456,235,000**	$318,215,000	+43%
Capital lease obligations	**$162,715,000**	$160,919,000	+1%
Shareholders' equity	**$1,263,649,000**	$1,167,659,000	+8%
Return on average shareholders' equity	**21.8%**	20.8%	+5%

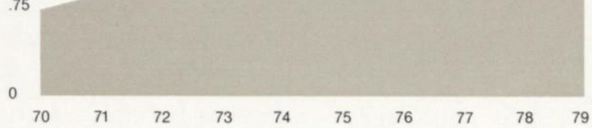
Revenues (In Millions)



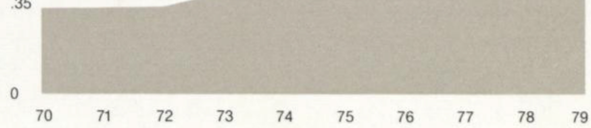
Net Income (In Millions)



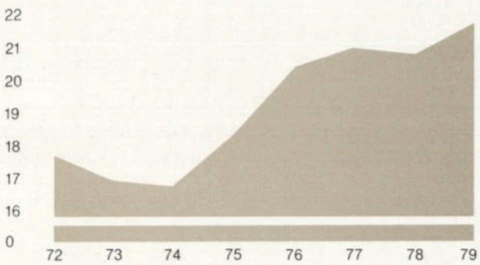
Earnings Per Share (In Dollars)



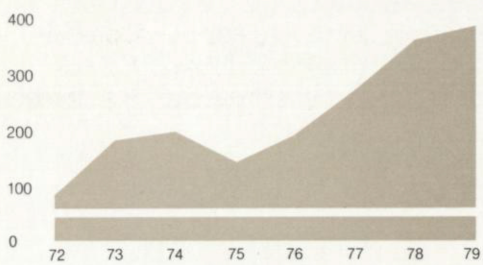
Dividends Per Share (In Dollars)



Return on Shareholders' Equity (Percent)



Capital Investment in Plant and Equipment (In Millions)



The final year of the 'seventies was another year of substantial progress for PepsiCo. We closed out the decade with sales growing 18 percent to exceed $5 billion, and with earnings up 17 percent to $265 million. Earnings per share also rose 17 percent to $2.85.

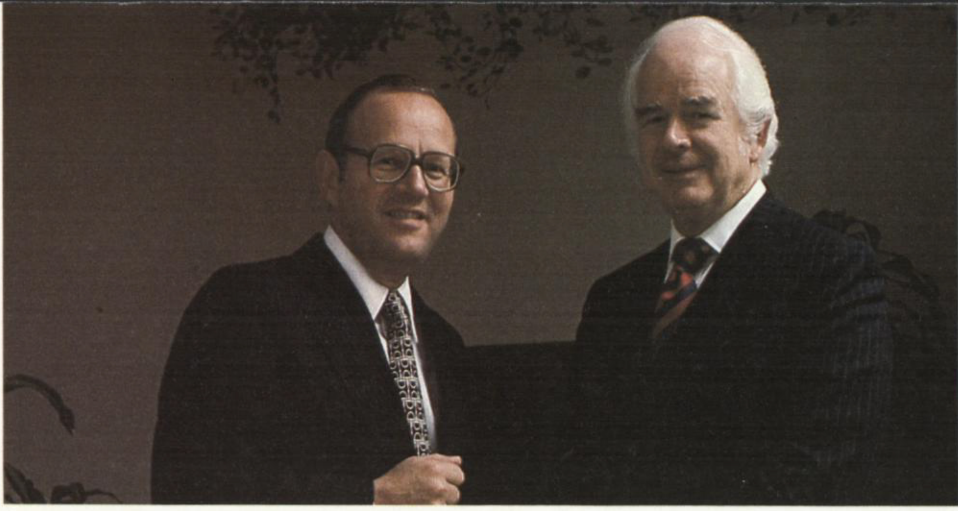
These results were achieved in the face of a variety of challenges created by accelerating inflation, international disturbances, and a changing marketplace; the year's performance was a fitting conclusion to a decade of remarkable progress for PepsiCo. In the ten-year period through 1979, sales and net income both grew at a rate of 17 percent per year, while earnings per share advanced 15 percent per year. The pace of our progress actually stepped up during the decade, as earnings growth rates accelerated. Net income and earnings per share, in the last five years, grew at the record rates of 21 percent and 20 percent per year, respectively.

Our management objectives at PepsiCo go beyond mere growth, focusing particularly on the achievement of high levels of return on investment. Here, also, the last decade's results have been dramatic. Shareholders' return on equity advanced to 21.8 percent in 1979 from 17.9 percent ten years ago. With increasing emphasis on the effective management of assets, we have also raised the Corporation's return on assets employed to a record level of 15.3 percent in 1979, substantially above the 11 percent level of the early 'seventies.

Another major objective at PepsiCo is to command a leading position—at or near the top—in each of the businesses in which we participate. Here again, PepsiCo made exceptional progress in the 'seventies. Independent market surveys have shown that PepsiCo's share of the United States market was on a steady upward trend in the soft drink and snack food businesses throughout the decade. Major marketing gains were also made overseas, particularly in the most recent years. In each of our other businesses, as well, we have sought and achieved a strong or leading position in a very competitive marketplace.

Two areas of our Corporation stood out as major contributors in 1979—our foreign operations and the snack food business. Our international business continued its recent trend of rapid growth, based on the major investments the Corporation has made over the years to meet the rising opportunities for expansion in overseas markets. International revenues increased in 1979 by 29 percent and operating profits rose 40 percent. While domestic operations also reflected excellent growth in revenues at 16 percent, the inevitable pressure on margins, resulting from escalating inflation in all areas of cost, slowed the growth in operating profits to four percent for the year. While many price increases were necessary, we have continued in compliance with the government's wage and price guidelines.

In terms of market performance, the domestic soft drink and snack food businesses made impressive gains,



Chairman of the Board and Chief Executive Officer Donald M. Kendall, at right, with President and Chief Operating Officer Andrall E. Pearson.

with volume increases at least double the industry growth rates. The snack food division was able to combine strong sales growth with important gains in productivity to give it another year of excellent profit performance and the distinction of becoming the largest contributor to PepsiCo's profits in 1979.

The past year presented a difficult environment for the food service business, as the industry faced problems of slowing consumer demand and sharp cost increases. Even so, Taco Bell managed to continue growing in both revenues and profits. Pizza Hut set its 1979 priorities on improving its sales trend and market share, and important progress was realized on both. The programs and expenses dedicated to this purpose reduced margins and led to a decline in profits. The decline narrowed steadily, however, as the year progressed.

The transportation business also had a difficult year in 1979, with strikes, major cost increases, and inadequate rate relief affecting the entire industry. Revenues advanced but profits declined, entirely due to problems at Lee Way. Late in the year, however, the profit decline narrowed substantially. On the other hand, the major component, North American Van Lines, continued its record of fine performance, with substantial gains in revenues and profits.

Wilson Sporting Goods realigned its business in 1979 and established a stronger base for future growth. While revenues were off slightly, the Division's operating results improved from a loss in 1978 to a modest profit in 1979.

PepsiCo has continued its strategy of building for the future by reinvesting in the business. The record level of capital investment in 1979, at $387 million, was nearly five times the level of the early 'seventies. Continued growth in the demand for PepsiCo's products and services indicates further increases in capital investment will be needed as we move into the 'eighties, particularly for capacity expansion in the soft drink and snack food businesses.

We also continue building for the future through our commitment to a comprehensive research and development program. Major resources have been directed to the development of new and innovative products and to the highest level of quality assurance. A major development in 1979 was the opening of the PepsiCo Technical Center in Valhalla, New York which will significantly advance our efforts in these areas for the beverage business.

The Board of Directors increased the dividend in May 1979 to an annual rate of $1.14. Accordingly, the dividend declared for 1979 was roughly three and a half times the dividend of ten years ago and reflects a growth rate of 13 percent per year over the decade, and 21 percent per year over the last five years.

Because he has reached the mandatory retirement age, Herman W. Lay will retire as chairman of PepsiCo's Executive Committee and a director in May. As chairman of the PepsiCo Board, a director and the founder of Frito-Lay, Herman Lay's career is one of the great success stories of American business. He has been a great resource to PepsiCo and will be sorely missed.

While we can look back at the record of PepsiCo over the past decade with considerable satisfaction and pride, our attention is now directed to the challenge of the 'eighties. There will be both opportunities and problems to face from an ever-changing environment. We look forward to each with confidence, however, based on the marketing and financial strength of the PepsiCo enterprise and the management and organizational resources at our command.

Finally, let us express our appreciation for the continued support of our shareholders, employees, and customers.

Donald M. Kendall

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Chairman of the Board and
Chief Executive Officer

Andrall E. Pearson

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President and Chief Operating Officer

For longer than most Americans can remember, Pepsi-Cola has held its position at the forefront of modern advertising and marketing. The decade of the 'eighties should prove to be no exception.

The last 20 years of turbulent social change, often overseasoned with crises and clashing of points of view, have left most people feeling like veterans of a prolonged struggle. It has been a time of international upheaval in a world constantly growing smaller… while American society has visibly changed and matured. We have gone through a time in which public consciousness has broadened while boundaries that once separated us from distant cultures and distant events have been beaten down. PepsiCo is launching into the new decade with the motive power born of experience and the buoyance of beginning a new period in marketing history.

When "Come Alive, You're In The Pepsi Generation" first hit the airwaves in 1963, it spoke of the spirit and sense of adventure that was already part of American consciousness. The public's strong identification with "The Pepsi Generation" helped carry Pepsi-Cola to its current status as the largest selling soft drink in American supermarkets—the largest selling *product,* in fact, of any kind on grocery store shelves. If the last two decades were both the best and the worst of times, it should be noted now that PepsiCo has never been in a better position, or better condition.

In spite of sobering developments in the economy and chronic oppressive headlines in newspapers and on TV, we still have optimism about the 'eighties and what they portend for our country and PepsiCo. As the pendulum of social currents slowly swings into a new arc, we predict the gradual demise of the "Me Decade" and the birth of the "We Decade," a "You-Turn" towards sharing, a shift from self-satisfying activities to the spirit of being with friends, security in numbers, the satisfaction of family relationships, working and playing together.

PepsiCo is taking The Pepsi Generation into the 'eighties with a new campaign, "Catch That Pepsi Spirit… Drink It In!" A landmark in advertising, the commercials express the pride and optimism of Americans everywhere—our taste for life and our spirit of living. Pepsi-Cola commercials have always reflected American life as PepsiCo marketing has succeeded so well by synchronizing with the shifts in our developing society. Just as the final trajectory of Skylab punctuated the conclusion of the 'seventies, Pepsi-Cola's emerging new program will mark the new unity of our people, and the old principles of hard work, national spirit, and hope. Our new values will be our old values, dusted off and polished up in the light of a brand-new decade. The spirit that we have missed for so long is making a comeback.

This is not to say that everyone in the country is going to become the surburban family with 2.3 children and a (compact) station wagon. The Pepsi Generation that people have associated with the 'sixties and 'seventies is growing up but age is no barrier to membership. Only attitude. For example, while 62 percent of men and women between 13 and 24 years of age identified with The Pepsi Generation, fully 43 percent of those between 35 and 49 agreed that they, too, were part of it. The Pepsi Generation describes everyone with a young view of things.

This year, a favorable editorial in the *Washington Star* (February 21) said Pepsi-Cola advertising "...offered a kind of proof that the people who sell soft drinks may grasp the currents of society more quickly than cultural anthropologists." Earlier that month, on February 8, the Los Angeles *Herald Examiner* pointed out in an editorial "...Pepsi's market research has always proved remarkably accurate."

"Catch That Pepsi Spirit" considers what we believe the new decade will bring—the spirit of life, of love, and of laughter. The campaign urges Americans to go with it, to taste life...not just to sip at it but "to drink it in." Its bond with the concept of family and togetherness reinforces feelings that should be prevalent as fears of recession and inflation encourage more people to search for the security of social reinforcement during the coming years.

On February 3, the new campaign was inaugurated before a home-viewing audience of more than 100 million persons with a special two-minute commercial that ran simultaneously on all three networks and specially selected independent stations. In music, mood, and character, the commercials continue to reflect what The Pepsi Generation has always represented...an outlook, an attitude, a style—a *spirit* that Pepsi-Cola Company invites the whole world to share, to join, to catch.

For three years, "Have A Pepsi Day" proved to be a highly successful and motivating campaign. But as America changes, so must our advertising. In the past, our commercials have sought to hold a mirror up to life, to be a shining likeness of America's taste and temperament. But now, with "Catch That Pepsi Spirit," we believe we have an opportunity to go even further: to be a cheerleader, to rally a whole generation into a spirit that is easy to catch and hard to shake.

Another editorial in the February 6, 1980 edition of Lynn, Massachusett's *Daily Evening Item,* having remarked, "Using everything from it's own sociologists to 'gut feeling,' Pepsi has been right on the money in predicting our moods...." went on to say, "If Pepsi has in fact grasped the new American mood we can paraphrase another statement about business and comment that this time 'What's good for Pepsi is good for the nation.'"

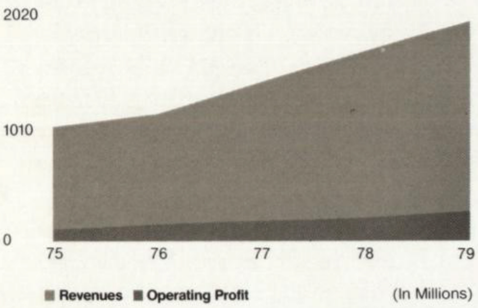
The shape of things to come will depend largely upon the visionary ability of Americans to have a workable image of their future. As PepsiCo has done in the past, so shall we do in the future: to give our society a positive image, a practicable, viable, common conception of America in the rest of this century—an image into which we are all beginning to fit, even today.

As the new campaign reflects our vision of the 'eighties, current events and the vagaries of the stock and commodities markets may be deflecting the foresight of many shareholders, giving one a distorted and pessimistic point of view. If our country can navigate through the rolling rocks of inflation and recession, however, most people will find a better deal in the 'eighties.

Although many see this new decade as one of "diminished expectations and purchasing power," the picture is not as leaden and gloomy when compared to the psychology of rising expectations and entitlement that has characterized the last twenty selfish years. A little extra social consciousness may be what we need—a period with a little more tranquility than transience, more of the metal that built this nation than the meringue that marked the frothy 'sixties and 'seventies.

PepsiCo will be there, looking forward to a new era of growth and, of interest to shareholders, financial stability and prosperity. It should be a great decade.

Beverages



This is the largest business segment of PepsiCo, comprising two divisions, the Pepsi-Cola Company and PepsiCo International. Record revenues for the year of over $2 billion improved 19 percent over 1978, with overall profits, domestic and foreign, up 12 percent over the prior year.

Pepsi-Cola Company Sales growth exceeded that of the rest of the industry for the fourth year in a row as the Pepsi-Cola Division's case sales rose seven percent over 1978, again doubling the industry growth rate and improving market share. Profits improved even though competitive spending on advertising and marketing escalated to all-time highs in 1979.

Led by its major brand, Pepsi-Cola, the Division maintained its leadership position in the nation's foodstores for the third straight year. A key contributor to 1979 growth was the popularity of the company-pioneered two-liter plastic bottle. This package gained permanent display in foodstores through widespread nationwide placement of gravity-track display units.

Diet Pepsi sales increased at a rate five times that of the industry's total diet category. Stimulating this growth was the second successful year of the Diet Pepsi 10,000 Meter Run, a public relations event featuring road racing in 91 cities throughout the year. Virtually every major market participated in this unique recreational sports tie-in, establishing it as the largest running program in the world.

Mountain Dew continued to register soaring sales gains as the brand claimed a key spot in the national soft drink sales rankings. Supported by increased distribution in foodstores and cold-bottle outlets, Mountain Dew continues to be the fastest growing major soft drink in the United States, posting another sharp gain of more than 20 percent in sales volume last year.

Sugar-Free Pepsi Light was introduced nationally in 1979, adding to our share of the diet soft drink category. Increased distribution is planned for 1980.

Among the Division's high-visibility marketing campaigns was the continuation of the highly successful Pepsi Challenge. During the last four years, the Challenge has been introduced by over 50 bottlers representing 40 percent of the total U.S. population. Current Challenge markets are growing at almost three times the rate of non-Challenge markets. During 1979, *Wave II* of the campaign, called "Taste That Winning Taste," was introduced in existing Challenge markets to further take advantage of Pepsi-Cola's taste superiority over the competition. In addition, a spectacular fourth-quarter holiday supermarket consumer promotion featured Mickey Mouse and free vacations to Walt Disney World.

Pepsi-Cola Bottling Group (PBG), the Division's company-owned bottling operations, increased market share throughout its system and closed out the year with a modest profit improvement. In a climate of difficult marketing conditions, PBG continued to outpace the growth of the industry significantly. In Michigan, where the organization was forced to adapt to costly returnable packaging legislation, performance in the marketplace was relatively successful but profits were affected adversely. Beginning in 1978, PBG met this challenge with an unprecedented investment, completed in 1979, for the required addition and expansion of 19 warehouses, 34 percent more route vehicles, and a total restructuring of production facilities.

Conroe, Beaumont, and Fort Worth, Texas have been consolidated with the Dallas and Houston territories as PBG continues to improve underdeveloped markets. Conventional route delivery in these areas was converted to a pre-sell system, improving productivity and

providing the groundwork for significant progress in 1980.

Pepsi-Cola's Food Service Division achieved another year of significant progress since its inception in 1978. Volume growth once again more than doubled the rate of growth for the food service soft drink market. Major distribution gains were won for Pepsi-Cola Company products, with particular success in chain restaurants. Mountain Dew became a major brand in this industry during 1979 with dramatic distribution gains. Diet Pepsi also expanded its availability significantly with many new accounts throughout the year.

PepsiCo International With sales volumes, revenues, and profits continuing to grow rapidly, PepsiCo International again achieved superior results in 1979. Both of the Division's operating units, Franchise and United Beverages International (UBI), set records in contributing to this performance.

As a whole, the increase in PepsiCo International's case sales was nearly double the rate of the industry's growth while profits surged to double their 1977 levels.

The Franchise operation is the larger of the Division's two operating units. Like Pepsi-Cola in the United States, it sells soft drink concentrate to franchised bottlers.

Looking at an international soft drink market of more than 10 billion cases (twice the size of the United States market), PepsiCo International continued to follow aggressive marketing and expansion programs. Twenty-two new franchised bottling plants were opened (10 of them in new markets), and 106 bottling lines were put into place, bringing the Division's network to a total of 576 bottling plants selling in 144 countries.

While emphasizing the Pepsi-Cola brand, the most profitable and highest volume product, the International Division also markets an extensive line of flavors, in order to appeal to local tastes. To support concentrate sales, special emphasis is given to providing assistance to bottlers in expanding capacity and putting in place "tools of the trade" (coolers, vendors, glass, and trucks). Selective investment of this type in high growth/high profit markets, along with PepsiCo's well-known leadership in innovative packaging, has accounted for a large part of the Division's success.

International Franchise completed its third successive outstanding year with case sales up by more than 13 percent, the year's widespread headlines on civil insurrection, economic and political difficulties, and war notwithstanding. All major market areas exceeded 1978 case sales except Japan, where the entire soft drink industry experienced a slowdown.

Thailand marked its highest growth rate of the last decade, as a result of the liter package introduction and successful merchandising and distribution programs.

The Nigerian soft drink market (which, like those of all African countries, is undersupplied) grew by 24 percent in 1979, with Pepsi-Cola case sales nearly doubling their 1978 levels and our share increasing against the competition.

In the Middle East, PepsiCo concluded an agreement to invest in a major agricultural project in Egypt. As a result, our Egyptian bottler is building seven additional bottling plants over a five-year period, the first having begun production last October.

In Saudi Arabia, PepsiCo International has helped pioneer the development of the soft drink can business, and has introduced new flavor products and package sizes into this promising region. Having assisted in the installation of the first local can forming and filling facilities, the Division has seen canned soft drinks go from a zero base in 1976 to nearly half of today's industry of over 60 million cases.

Eastern Europe, with an enormous soft drink market, continues to represent a growth opportunity for PepsiCo. The opportunities for expansion, through flavor and package introductions and through the construction of new plants and bottling lines, are vast, and plans for capacity expansion are proceeding apace. Case sales in 1979 were nearly a third higher than in 1978, as a result of the opening of new plants by the franchised operations in the U.S.S.R., Yugoslavia, and the first Pepsi-Cola plant in Bulgaria.

Western Europe's most important market is Germany, the fifth largest soft drink market in the world after the United States, the Soviet Union, Mexico, and Japan. PepsiCo is gaining a larger share of this business through an energetic sales effort, aimed at chain supermarkets, and through the important company-owned Dusseldorf operation.

South America, led by Brazil, Argentina, and Venezuela, is a region of expanding markets and rising case sales. PepsiCo holds either a very strong or leading position in all of the key, high-volume markets with spectacular financial improvement in Argentina, growing case sales in Brazil's very competitive market, and a commanding share of the cola market in Venezuela.

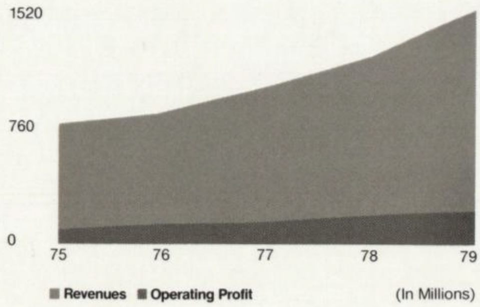
UBI, the flagship bottling company, is PepsiCo International's system of company-owned bottling operations. It has 35 plants and 15 thousand employees operating in 11 countries.

These bottling plants set the pace for PepsiCo marketing programs and provide an important method of upgrading lagging overseas franchises. They also are an excellent vehicle for profit growth in key markets, beyond what the Division would be able to achieve solely through concentrate sales.

Strong volume and profit gains were registered in most of UBI's key countries with the two largest markets, Mexico and the Philippines, both showing approximately 20 percent increases in volume.

With both Franchise and UBI moving ahead strongly, PepsiCo International enters the 'eighties with remarkable momentum, anticipating major achievements in the decade ahead.

Food Products



PepsiCo's food products business is made up of two quality snack divisions, Frito-Lay and PepsiCo Foods International—the latter operating in five foreign countries and Puerto Rico. Total domestic and international sales

grew 23 percent in 1979, with profits improving 24 percent, continuing the pattern of rapid growth for this segment.

Domestic Snack Foods Reflecting the vibrant health of the over 12 billion dollar snack food market, Frito-Lay achieved its eleventh straight year of record earnings, advancing the Division to the position of PepsiCo's largest profit contributor. Sales and volume increased substantially over 1978, with unit volume growth led mainly by new products, such as Tostitos brand tortilla chips, and by line extensions such as barbecue and sour-cream-and-onion Ruffles brand potato chips. Solid volume growth was also achieved by all of the major Frito-Lay brands. Nine hundred new routes were added to the Division's sophisticated store-door delivery network, bringing the total to over eight thousand.

Selling expenses as a percent of sales were held at levels comparable to previous years, despite sharply higher fuel and vehicle costs. Escalating energy costs have been carefully controlled and the inherent strengths of the store-door selling system are being

sustained. Frito-Lay has demonstrated that, even in a period of rapid inflation, improved management of the store-door fleet system can yield positive results.

Proven merchandising and display techniques are scientifically evaluated as are inventory turnover and the size of snack food packages. Introduction and promotion of larger-size bags have increased sales tonnage while improving per capita sales gains. Bigger bags move more product and provide an economical package for the customer.

Another important reason for Frito-Lay's success is its emphasis on product research and development. In all, six new products or line extensions were tested in 1979 and an equal number or more will be tested in 1980. Products now in test markets include: a ball-shaped version of the successful Chee•tos brand cheese-flavored snacks, a thinner and lighter Fritos Lights brand corn chip, and Zambinos brand, a new Italian-style snack. The Division is also moving more deeply into the meat, cracker, and sweet snack segments of the snack food market via its Go-B-Tweens line of single-serving products.

Frito-Lay's ability to service both large supermarkets and small convenience outlets, including restaurants, taverns, and gasoline stations, is a distinct ingredient of its success. Frito-Lay continues to promote its market expansion with quality products and in-depth marketing support. The steady growth of its distribution base, and widespread presence in the marketplace, provide a solid foundation for continued growth.

International Snack Foods PepsiCo Foods International (PFI), the Corporation's fastest growing division, closed out a solidly profitable year, nearly doubling the size of its sales between 1976 and 1979. Gross sales were up a third over 1978 while operating profits grew even more, with Mexico, Canada, Brazil, Puerto Rico, and Spain setting sales and profit records. As a clear indication of its excellent growth, PFI is now larger than Frito-Lay was at the time of its merger with Pepsi-Cola in 1965 to form PepsiCo, Inc.

Sabritas, PepsiCo's Mexican subsidiary, mounted a strong sales offensive to increase its share of the market and turned in an impressive sales gain. Imaginative advertising, successful promotions, and the introduction of four new products focused consumer interest on the Sabritas name. Market share advanced to an all-time high on revenues that were half again as large as the year before. In addition to nearly 500 new routes, construction began on a new plant with initial production scheduled for later this year.

Sales were up again in Canada where PFI is emerging as a major competitor in the market. Share improvements in the major Quebec and Ontario regions supported solid sales and profit growth.

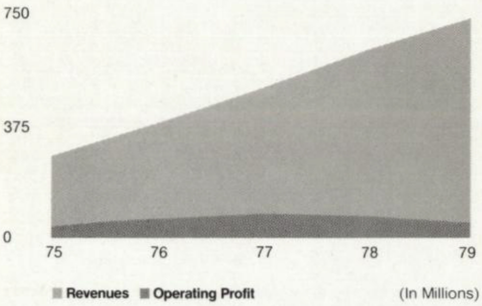
Brazil, a showcase for fast growth, saw sales increase by over a third for the fourth year in a row, outstripping the competition and making it the overall share leader in this rapidly growing market. Construction is nearing completion on a new plant scheduled for start-up this summer.

Record sales growth in Puerto Rico reflected a heavy media campaign and a strong marketing program in support of new product introductions. Sales increased by almost a third, increasing PFI's leadership position on the island.

In Spain, efforts to improve profitability through the reduction of selling expenses and increased productivity resulted in solid gains as the company retained its number one market position.

To continue the powerful momentum already established, PFI plans aggressive marketing programs and continued operating improvements in all of its territories.

Food Service



PepsiCo's food service business is comprised of two divisions: the Pizza Hut and Taco Bell restaurant chains. In a year troubled by inflation, sales grew 20 percent for this segment although profits declined 22 percent compared with 1978.

Pizza Hut Pizza is still one of the fastest growing segments of the food service industry and Pizza Hut, although dealing with a difficult industry environment, remains preeminent in the business. Coast-to-coast, it represents a system—company and franchise—that will produce over $900 million in sales in 1980 and is the only pizza company with an important international component.

Competitive incursions, escalating food and labor costs, and a tight labor supply combined to erode Pizza Hut's profitability. Still, the chain's share of the market increased during the last three quarters of 1979 and the trend of profit performance, despite industry conditions, began to improve.

The year was a transition from the position of identifying the problems to actually implementing corrective programs. A number of important measures are being put into effect to improve immediate and long-term performance. These include new concepts, new products, and variations in the type of service offered.

One idea that has come of age is the new Pan Pizza, already introduced in about one-half of Pizza Hut restaurants. A quality product, "Made By Hand In The Pan," Pan Pizza comes with a variety of delicious toppings on a generous layer of cheese and a light, thick, pan-baked crust. The national rollout will be completed by the end of the second quarter and will receive strong advertising support.

Pizza Hut's new television advertising campaign, "Comin' In For Good," emphasizes quality and its wide variety of products, while a major effort is being waged internally to assure pleasant customer service and restaurant appearance. Operating costs have been brought under tighter control, distribution efficiency will be improved through an automated, variable routing system, and a larger proportion of new restaurants in the chain will be franchised, particularly in the profitable overseas operation.

Abroad, there are now 207 restaurants in 14 countries and territories, 115 of which are franchised. In 1980, Pizza Hut expects to open restaurants in at least four new countries and negotiations are proceeding with Bulgaria for the first Pizza Hut restaurant in Eastern Europe.

On a worldwide basis, Pizza Hut opened 284 new restaurants in 1979 to end the year with 3,948 units (after 46 closings), including 2,032 company-operated and 1,916 franchise restaurants. The rate of new openings was reduced in 1979 as emphasis shifted from adding new units to the system to the more difficult task of increasing customer traffic and sales volume per restaurant.

While customer traffic trends continued to be negative through most of 1979, the decline narrowed significantly by midyear. In the final quarter, real volume was off slightly, but the general trend for the year, in the face of weak industry conditions, was much improved.

Taco Bell The highly competitive fast-food industry created fewer problems for Taco Bell, which maintains a leadership position in the Mexican fast-food business. Nevertheless, the Division's management continues its efforts to respond to competitive developments.

Taco Bell restaurants (like Pizza Hut units) are mainly in neighborhoods where customers are drawn from only one- or two-mile areas—rather than being dependent on freeway and shopping center locations where gasoline difficulties have interrupted consumer travel patterns. In-store promotions and selective media spending have helped counter intensified regional competition. Earlier in the year, Taco Bell brought margins back to historical levels in most areas of the

country while increasing media spending in several highly competitive cities.

Taco Bell's policy of quality and simplicity, with only nine food ingredients used to prepare eight menu items, combined with tight control of overhead expenses, has kept the business operationally efficient.

Advertised as "The Fresh Food Place," Taco Bell offers moderately seasoned Mexican food prepared from high-quality, fresh ingredients. While continually researching better ways to cook and serve its products, Taco Bell adheres to uncompromising standards for quality, taste, and its own speedy technique for the preparation of each item as it is ordered—characteristics that set Taco Bell apart from its competitors.

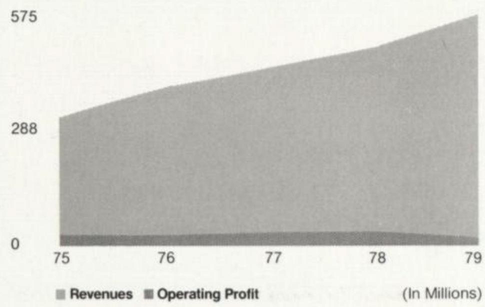
Although Taco Bell has always had a strong appeal to teenagers, its ability in recent years to shift the emphasis of its menu from snack food to the complete meal concept—tasty lunch and dinner entrées in a comfortable dining room—has broadened its customer demographics to include all age groups.

Three new products were introduced in 1979: The Chili Dog Ranchero (chili, cheese, onions, and mustard on a special hot dog), the Cinnamon Crispas dessert (a cinnamon tortilla), and the Paul Bunyan large size drink. The very successful Taco Supreme, new in 1978, was expanded nationally. Programs were undertaken to increase productivity and provide better customer service, primarily through expanded and improved employee motivation, training, and development.

Taco Bell opened 129 new restaurants in 1979 and is now operating in 40 states, Canada and Guam; the system includes 1,100 restaurants of which 589 are company-operated. Bell Foods Services, a wholly-owned subsidiary, opened an additional four warehouses for a total of eleven and is now supplying most of the company-operated restaurants.

Noting that its restaurants have been well received in new markets, particularly in areas where people are relatively unfamiliar with Mexican food, Taco Bell is optimistic about its ability to capitalize on the coming decade's opportunities. The appeal of superior, reasonably priced and specially prepared Mexican-style menu items, along with the chain's excellent economics, position this Company well for the 'eighties.

Transportation



PepsiCo's two transportation companies fared differently in 1979. North American Van Lines (NAVL) did very well with its corps of independent owner-operators and favorable operating expense ratios. Lee Way Motor Freight, on the other hand, was adversely affected by strikes and inflation. As a whole, therefore, revenues for this business segment grew 15 percent while profits dipped 37 percent.

North American Van Lines NAVL had an excellent year in 1979, with revenues 30 percent higher than in 1978. Both profits and return on assets employed hit record levels. These results are particularly significant because of the performance by each of the Division's three key operating subdivisions: Household Goods, New Products, and High Value Products. These subdivisions grew substantially over 1978 in spite of a difficult economic environment for the trucking industry.

High Value Products (HVP) had its best year in history showing exceptional growth in excess of 50 percent. Although the major portion of this resulted from transporting expensive electronics and computers, HVP also

experienced significant growth in the transportation of specialty items, exhibits and displays. Having anticipated this growth, NAVL expanded HVP's fleet to capitalize on the increased demand. As a result of its sales force development efforts, HVP is extending service to the "shorthaul" of crated exhibits and is taking advantage of other new opportunities.

New Products ships crated and uncrated commodities from manufacturers to warehouses, distribution centers, and retailers' showrooms. The fact that NAVL is now the nation's largest diversified moving company is mainly a function of the growth of this commodity-carrying subdivision—clearly headed towards being NAVL's largest. With new hauling authorities, it is hoped that this continuing diversification will combat slackening effects of inflation and potential recession.

Household Goods, still NAVL's largest in terms of revenue, will probably account for one-third of sales in 1980 as New Products grows larger and the household market softens. While added markets are being created and developed for this subdivision, the outlook for household goods is directly impacted by inflation, the rate of growth in our national economy, and the trend in housing starts. Emphasis, then, is on improving operational ability, on-time service, increasing national accounts, and tightening control over capital expenditures.

In all, NAVL grew faster than any of the other top ten trucking companies and was not seriously hurt by the trucking strikes early in 1979. The Division's excellent competitive position in the markets it serves, and its plan to expand what is already the United States' largest fleet of owner-operators, should cultivate growth in the varying economic weather of 1980 and beyond.

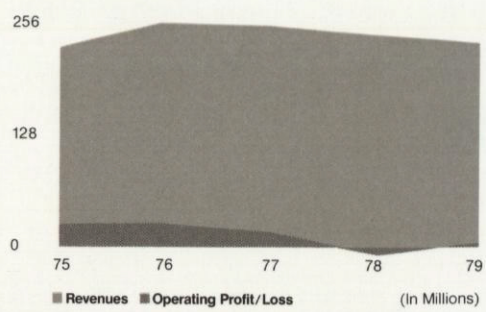
Lee Way Motor Freight The year's troubled environment, marked by a Teamsters' strike and softening economic conditions, contributed to deteriorating performance by Lee Way, a general commodities carrier. Though some improvement was seen in the latter part of the year, the Company continued to face intensified competition in a weakening market. Rapidly escalating operating costs, particularly for labor and fuel, and the failure of the industry to receive sufficient price increases to cover rising costs, further hindered Lee Way's operating improvement efforts.

To provide a competitive edge in the market and reverse declining growth trends, Lee Way has sought to outperform the industry in service. Through a new computer Billing Entry and Monitoring System (BEAMS), Lee Way employees can accurately locate, in a few seconds, any shipment moving within the Company's 81-terminal network. The speedy and consistent transit time performance Lee Way now provides between 35 of America's top 50 markets coast-to-coast, coupled with courteous and dedicated customer service, has given the Lee Way sales force a high-quality product to sell.

Intensified cost controls and improvements in line-haul and terminal efficiency are major elements of Lee Way's plan to build the internal economics for improved profitability. Equally important, future rate relief is necessary to help offset continuing inflationary increases in labor, fuel, and other non-wage operating expenses. Programs are also underway to minimize fuel consumption through the use of more fuel-efficient diesel engines and by accelerating conversion of the entire line-haul fleet to radial tires.

With the sales and operations functions restructured under one executive in each of three subdivisions, and key field management positions filled by seasoned trucking executives, Lee Way is well-positioned to capitalize on its quality service and to penetrate further the transcontinental market segment. This effort will be aided by the development of a new product line, the Lee Way Special Commodities Division, which will enable the Company to compete more effectively in certain sectors of the truckload market.

Sporting Goods



PepsiCo's business in this segment is Wilson Sporting Goods, the largest integrated company in the industry. It

operates through various subsidiaries in Japan, Canada, the United Kingdom and other countries. Foreign and domestic revenues combined were lower than last year; however, profits improved and reversed the downward trend in Wilson's contribution to corporate income. Operating expenses were reduced significantly, margins were improved, and management concentrated on reducing inventories and receivables.

Management and financial resources were assigned in proportion to the fiscal promise of each business unit. In-depth studies were completed on these units and a major reorganization was put into place. The Division was streamlined by changing from an organization of profit centers in golf, racket sports, and team sports, to a system integrated by function—marketing, sales, and distribution—for all products.

In Wilson's international business, 1979 saw the successful launching of a joint venture with Japan's Sony Corporation. Sony/Wilson, Inc., a Japanese firm owned equally by the two companies, will import, market, and distribute Wilson golf, tennis, baseball, and football equipment in Japan—the second largest sporting goods market in the world (after the U.S.A.) for those sports. With its population of 115 million, an enormous enthusiasm for American sports, and a high per capita income, Japan is expected to make a significant contribution to future growth for Wilson.

During the past two years, Wilson's international business has increased substantially, with Canada and the United Kingdom as particularly important markets.

Today, more professional athletes play with Wilson equipment than any other brand. At the 1979 U.S. Tennis Open, Wilson rackets were used by all four men's and women's singles finalists and by six out of the eight semifinalists (Kramer Autograph, Kramer ProStaff, Chris Evert Autograph, and the T2000). The Wilson Championship was chosen as the official ball of that tournament as well as 79 other national championships played last year.

For the second consecutive year, the winner of the Men's U.S.G.A. Open Championship used Wilson Staff clubs and ProStaff golf balls. At the U.S. Women's Championship, for the third year in a row, the winner used the Wilson ProStaff ball.

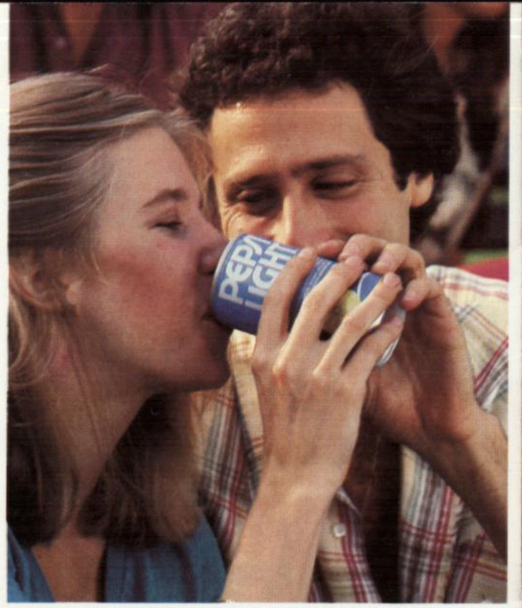
Ten out of fourteen baseball teams in the American League and eight out of twelve teams in the National League in 1979 wore Wilson uniforms and most used other Wilson equipment. In addition to autographed equipment, Wilson mitts and gloves are endorsed by many famous baseball players including Ron Guidry, Fred Lynn, and Jim Rice.

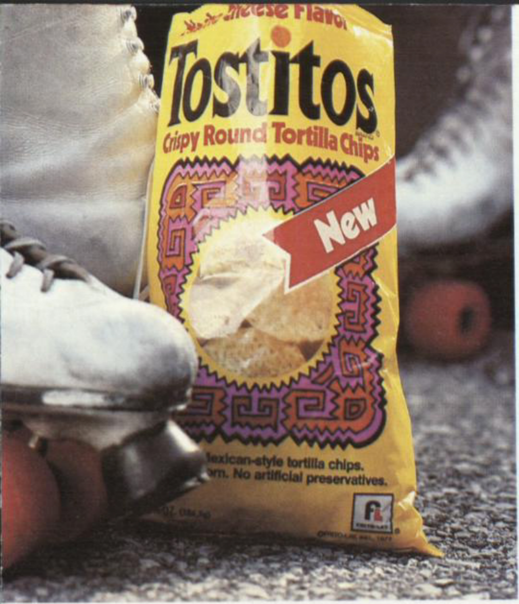
As the postwar baby boom matures and a larger proportion of the population falls into the 25-to-44 age group, with a parallel enlargement of the 45-to-60 group, there is a trend toward smaller family units, more working women and two-income households. There is more money per person and more time for leisure. Also, it is often pointed out that this generation attaches more importance to time than money, more significance to good times and independence than to a lifestyle synchronized to system and order, and more meaning to individuality, personal, and family relationships than to depersonalized membership in the workforce. All this presages well for the sporting goods industry and for Wilson—as the largest integrated company in the business.

The encouraging shift in trends, the Division's major restructuring of its business, and Wilson's name and position in the market, bode well for improved performance in 1980 and beyond.

Two-thirds of our Corporation's sales and revenues come from beverages and food products.

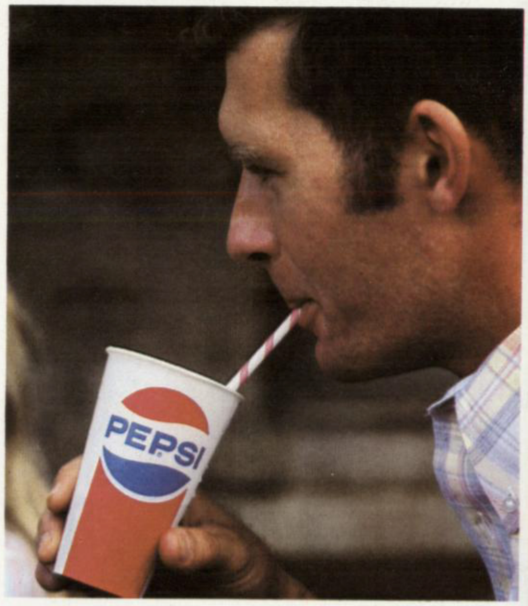
The special appeal of PepsiCo products—particularly to the decade's largest age group, the strong identification that Pepsi-Cola and Frito-Lay have with high-spirited good times, and the Corporation's hallmark of high quality have brought PepsiCo a continuously growing share of the markets in which we compete.




Tostitos
Crispy Round Tortilla Chips
New


Fritos
Tostitos


Fritos


PEPSI


Ruffles

Over four-fifths of PepsiCo's operating profits derive from beverages and food products. PepsiCo's leadership in the expanding market for these products positions our Corporation for healthy growth in the 'eighties.

From the trend delineating smaller families, two-income households, and more disposable income per person, comes the inference that the popular inclination for pleasurable activities will usually include PepsiCo snacks and beverages.

The 25-to-44 generation is having a powerful impact on our society and economy while the 45-to-66 group assumes a parallel, growing significance of its own: 40 percent of American adults are now 49 years old or over, and of this group 40 percent are active and still at work.

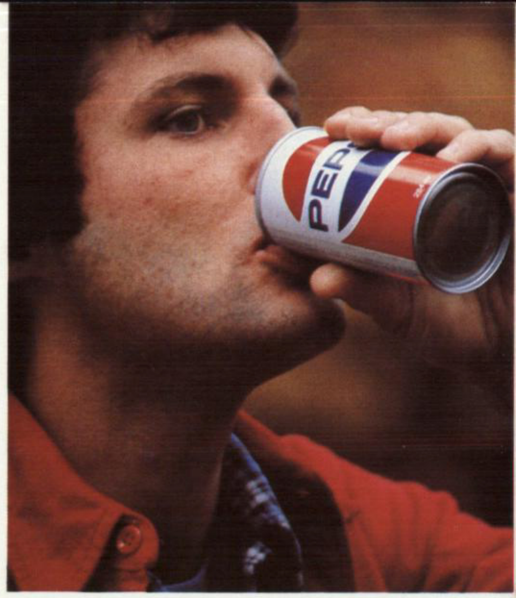
As American values and living standards change during the developing decade, PepsiCo stands to continue to become a larger part of American life for those who are now mature, as well as for those in coming generations.

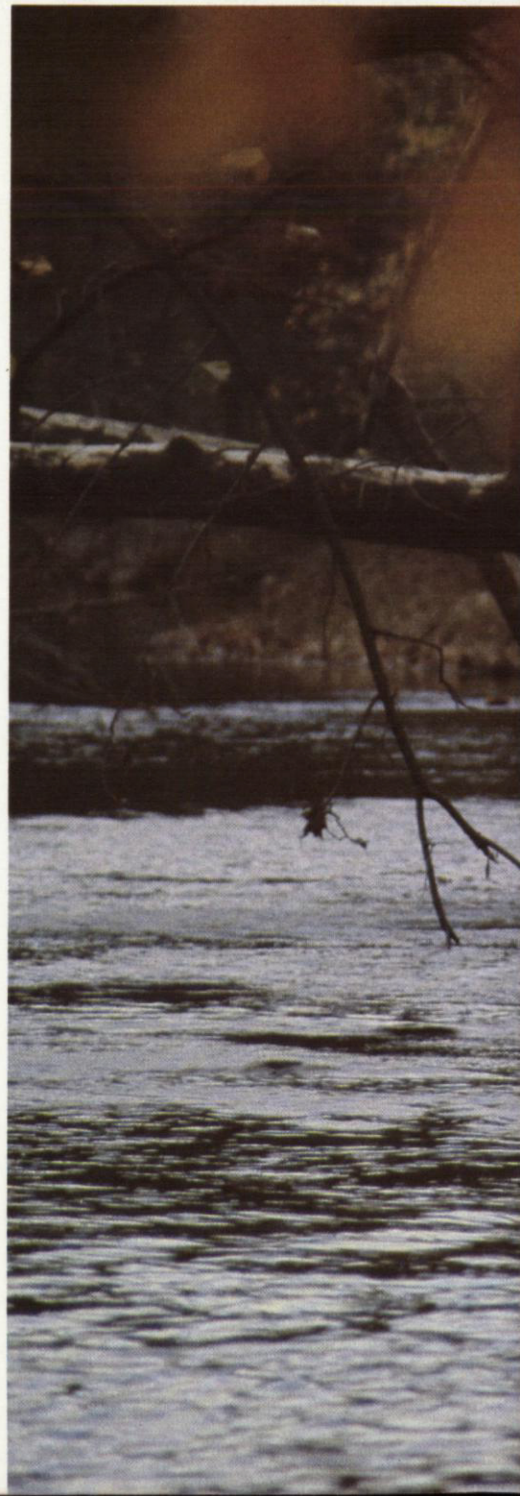

PEPSI


PEPSI

Pepsi-Cola reaches around the world and the length and breadth of the hemispheres. In Canada, the Dulac brand of potato chips is emerging as a major competitor in many of the country's snack food markets.

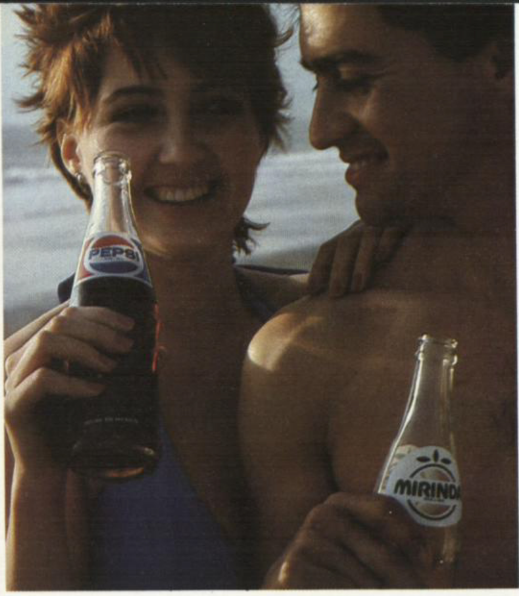
The success of PepsiCo's investment in overseas operations has helped improve return on shareholders' equity from around 17 percent in the early 1970's to over 20 percent in recent years.

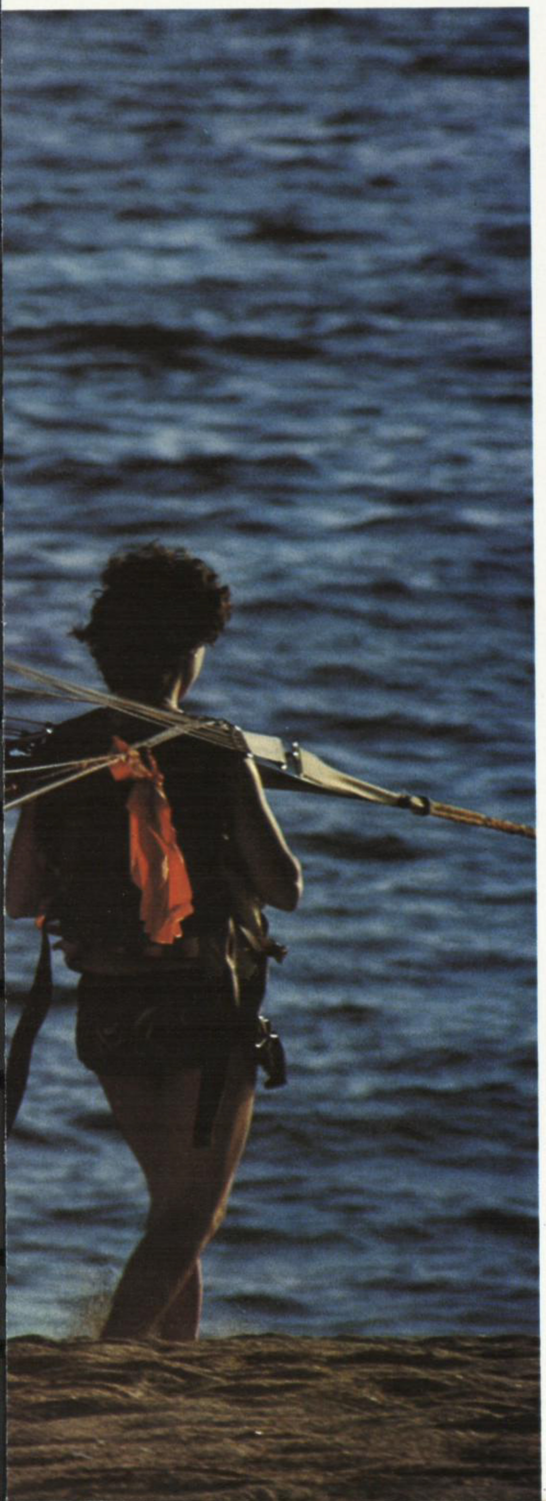




The growth of our soft drink and snack food businesses in Mexico is but one example of the tremendous potential for gains in market share abroad.

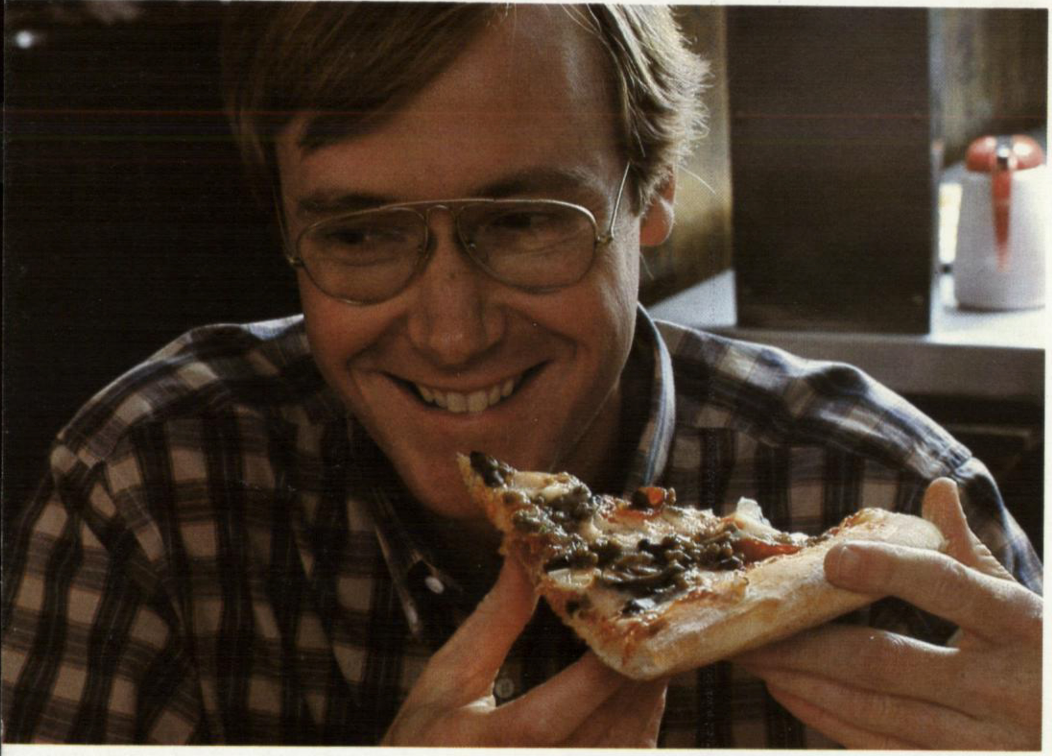
The international snack foods part of our business is now about the size that Frito-Lay was when it merged with PepsiCo in 1965. In both lines of business, growth like this is being achieved by expanding distribution, introducing new and larger packages, and through the addition of new products and flavors.

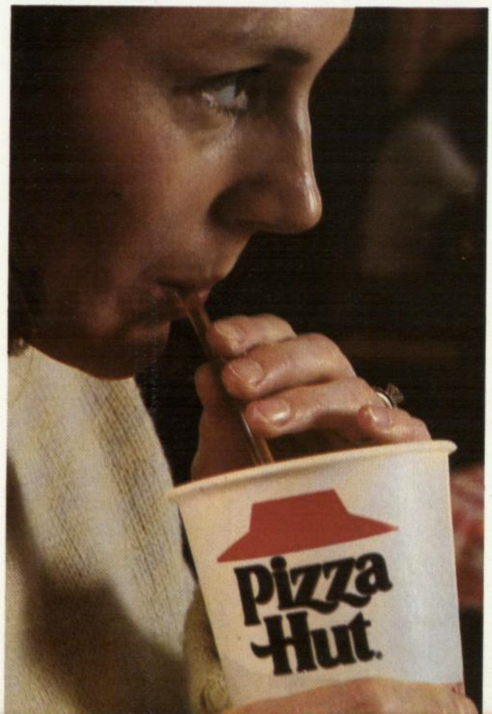

PEPSI
MIRINDA



Multi-earner households now make up 60 percent of all husband-wife family units, mainly owing to the continuing increase of working wives—half of all children under 18 now living in two-parent families have working mothers. In 1970 it was 38 percent.

Pizza Hut, operating in one of the fastest growing segments of the food service industry, serves the busy, modern family superior quality, solidly nutritious meals in pleasant surroundings.

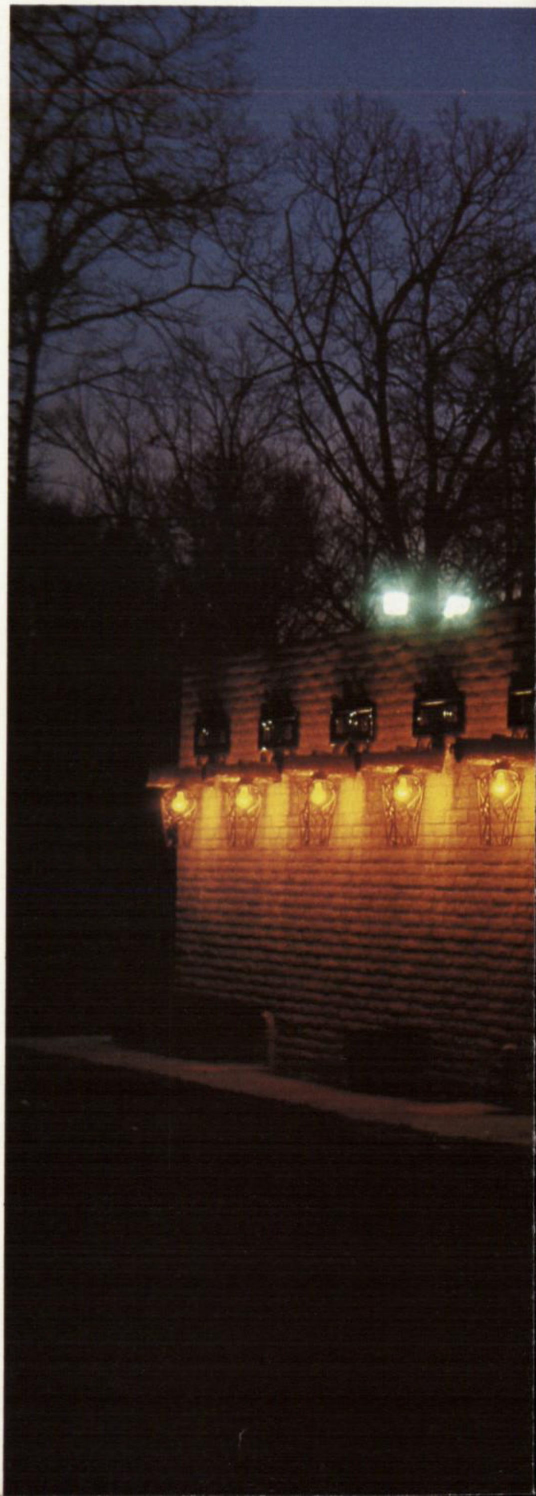


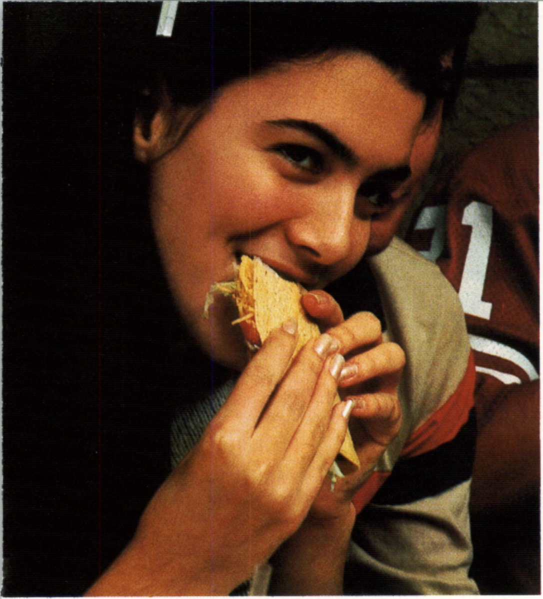


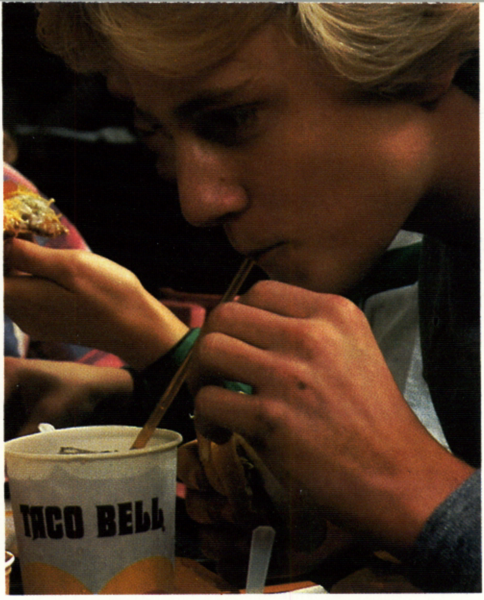

Pizza Hut
JOANNE

One-in-six employees works a shift in the evening, during nights, or on weekends. Usually these are younger people, members of the largest age group in the workforce. In the 'eighties, one out of every ten workers will be a teenager.

Every one of Taco Bell's eight delicious Mexican-style items is prepared to order from fresh, quality ingredients at very competitive prices. Overseas expansion for the chain is on the horizon.



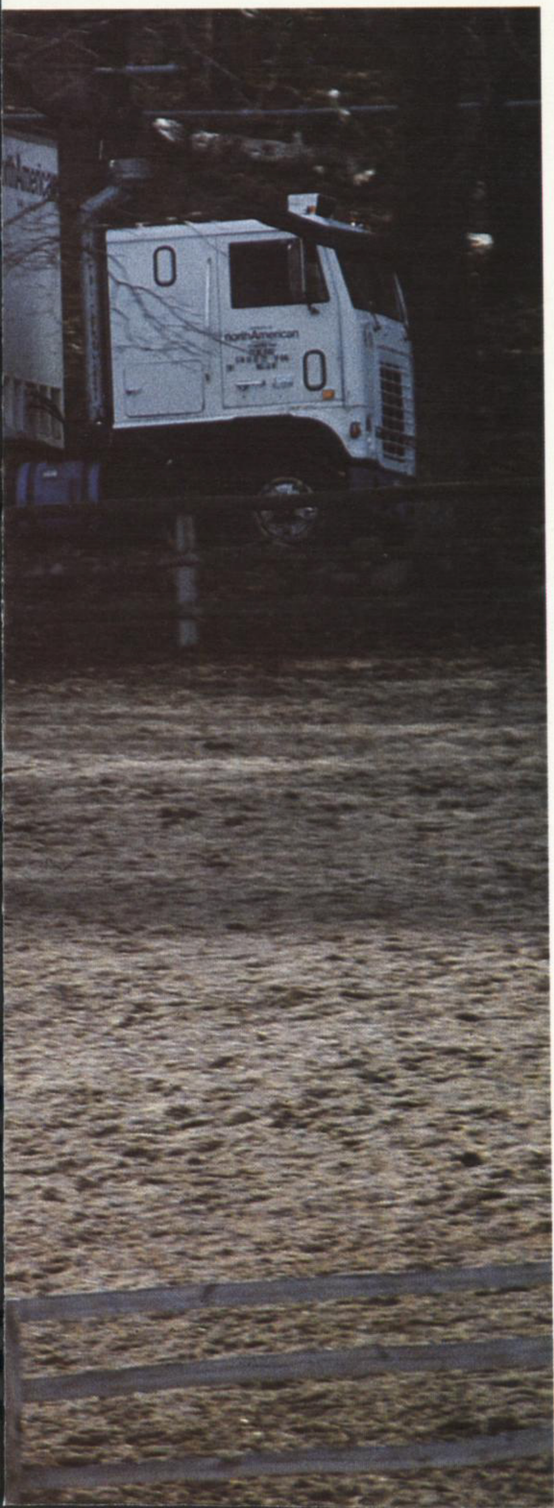



TACO BELL


TACO
BELL
TACO
BELL

Known mainly as a premier household goods carrier, North American Van Lines is growing faster now as a transporter of crated and uncrated commodities.

Its Household Division was still the largest in terms of revenue in 1979, however, demonstrating NAVL's continuing leadership in that field.




northAmerican
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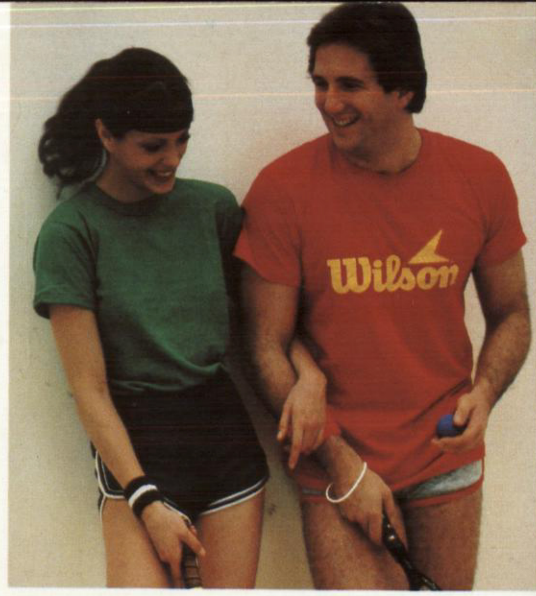

Wilson

At Wilson, the sports that demonstrate growth get special attention—particularly racquetball, baseball, and basketball. The entry of foreign participation in Wilson's international business is encouraging, as is the long-term outlook for continued individual involvement by Americans in active sports.

Analysis of Operations

PepsiCo's unbroken trend of improved revenues and net income continued in 1979. Sales and operating revenues rose 18% both in 1979 and in 1978 to $5.09 billion and $4.30 billion, respectively. Net income in 1979 rose 17% to $264.9 million, after a 15% increase in 1978 to $225.8 million. However, adjusted to exclude certain nonrecurring items, discussed below, PepsiCo had a 12% rise in net income over 1978. Excluding the same items, last year PepsiCo reported a 19% rise in net income over 1977. PepsiCo's fiscal years in 1979 and 1978 comprised 52 weeks, compared with 53 weeks in 1977.

Closing the decade of the 'seventies, PepsiCo again set records for growth in earnings; for the last five years ending December 1979, the compound growth rate for revenues was 16.1% per year, while net income and earnings per share grew 21.4% and 20.3% per year, respectively. For the ten years through 1979, the growth rates were 17.2% per year for revenues, 16.9% for net income, and 15.2% for earnings per share.

The nonrecurring items that affected 1978 results were as follows (pretax figures): (i) a charge to expense of $8.8 million as an allowance for all outstanding receivables due from franchise bottlers in Iran; (ii) a credit to income of $13.3 million received by Frito-Lay in settlement of litigation in connection with commodity purchasing over a period of years; (iii) a charge to expense of $9 million by Wilson Sporting Goods for inventory valuation and bad debts; and (iv) foreign currency translation losses related to the Swiss franc debt and other charges associated with its prepayment totaling $10.2 million.

Discussion of 1979 Results

A significant portion of the substantial increases in revenues for both 1979 and 1978 was attributable to strong gains in unit volumes. In both years the increases in physical volumes were particularly strong for the beverage and food products businesses. For all business segments combined, physical volume increases accounted for roughly half of the revenue gains in 1979.

The gross profit margin showed a substantial increase to 49.2% in 1979, after having remained steady in 1978 at 48.3% and increased by 1.1% in 1977. Marketing, administrative and other expenses increased 23% in 1979, after an 18% increase in 1978, as heavy spending continued in support of PepsiCo's product and marketing programs. Total advertising, for example, increased to $306.5 million, a 19% increase over 1978, reflecting a higher volume of advertising as well as inflation in media costs. The increase in 1978 was 16% over the 1977 total of $222.1 million.

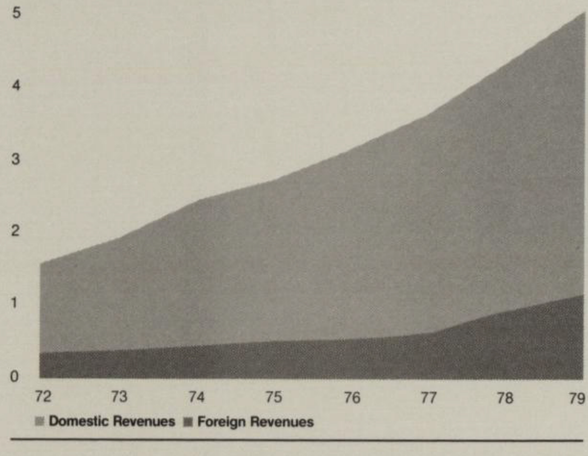
Foreign currency gains for 1979 amounted to $5.7 million, compared with a loss in 1978 of $11.6 million which was due principally to the Swiss franc debt retired in December 1978. Administrative and other expenses reflected a $4.9 million increase for pension expense in 1979 after a $7.5 million increase in 1978. The transportation business and distribution costs were significantly affected by the rapid inflation in fuel costs in 1979.

Interest expense in 1979 increased $21.1 million over the 1978 level. Net interest expense (after deducting interest income) increased by $17.4 million. The increase was due to a combination of higher interest rates and higher debt levels related to growth in operations and the repurchase of 3.6 million shares of PepsiCo's capital stock.

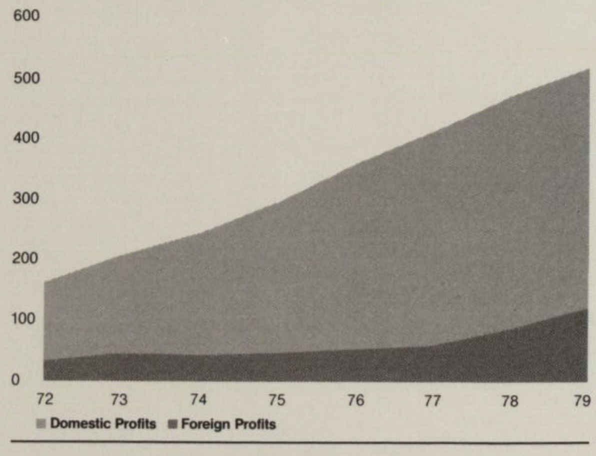
The provision for U.S. and foreign income taxes was 43.6% in 1978 and 38.9% in 1979. The reduction resulted primarily from the 2 percentage point decrease in the U.S. statutory corporate tax rate in 1979 and from an increased proportion of earnings from foreign operations taxed at rates below the U.S. rate.

Inflation and other expense increases, particularly advertising, put pressure on margins and were only partially offset by a combination of price increases and productivity gains. Profit margin per dollar of revenue

Domestic and Foreign Revenues (In Billions)



Domestic and Foreign Operating Profits (In Millions)



was 8.5% in 1979 compared with 9.3% in 1978 and 9.7% in 1977, on a pretax basis, and was 5.2%, 5.3%, and 5.4% in 1979, 1978, and 1977, respectively, on an aftertax basis. Emphasis continued on asset utilization, and return on assets was 15.3% in 1979, compared with 14.7% in 1978, and 14.6% in 1977. Return on average shareholders' equity was 21.8% compared with 20.8% in 1978, and 21.0% in 1977.

Business Segments:

Revenues (in millions)	1979		1978		1977		1976		1975	
	$	%	$	%	$	%	$	%	$	%
Beverage	2,013.7	40	1,698.4	39	1,406.8	38	1,160.5	37	1,064.9	39
Food products	1,518.5	30	1,231.8	29	1,048.3	29	911.9	30	806.7	30
Food service	748.3	15	622.1	14	499.8	14	382.0	12	283.2	11
Transportation	575.4	11	501.1	12	444.3	12	401.9	13	327.7	12
Sporting goods	234.7	4	246.6	6	250.1	7	253.1	8	226.9	8
Total	5,090.6	100	4,300.0	100	3,649.3	100	3,109.4	100	2,709.4	100
Foreign portion	1,161.9	23	902.2	21	686.0	19	569.5	18	535.0	20
Operating Profits (in millions) [1]										
Beverage	254.0	49	227.0[2]	48	180.2	44	143.5	40	111.4	38
Food products	195.4	37	158.2[3]	34	116.3	28	106.5	30	87.4	30
Food service	49.9	10	64.1	14	73.6	18	62.1	17	43.7	15
Transportation	18.5	3	29.3	6	25.6	6	21.3	6	22.7	8
Sporting goods	3.4	1	(7.5)[4]	(2)	16.4	4	26.5	7	24.8	9
Total [2], [3], [4]	521.2	100	471.1	100	412.1	100	359.9	100	290.0	100
Foreign portion [2]	116.7	22	83.1	18	52.8	13	49.2	14	46.2	16

[1] Excludes general corporate expenses and interest expense (net) which totaled as follows (in millions): 1979, $88.1; 1978, $75.5; 1977, $57.1; 1976, $62.8; 1975, $69.4.

[2] Excludes an $8.8 million expense related to receivables from Iran in 1978.

[3] Excludes a $13.3 million credit for settlement of litigation in 1978.

[4] Includes a $9.0 million expense related to receivables and inventory in 1978.

Combined revenues for domestic and foreign beverage operations increased over 1978 by 19%, following a 21% increase in 1978. The revenue increases in 1979 reflected both price and volume increases, with bottlers' case sales increasing 7% in the U.S. and 13% for foreign operations over last year. Total costs and operating expenses for domestic and foreign operations increased 20% over 1978. A significant portion of these increases represents greater advertising and other marketing expenses which had the effect of narrowing domestic operating margins. Operating profits rose 12% over 1978, but the overall operating margin declined 0.8 percentage point after a gain of 0.6 percentage point in 1978.

The food products segment reported a revenue increase of 23% for 1979 compared with 1978. This increase reflects a substantial growth in unit volume (11% domestically and 29% outside the U.S.) and also higher prices and improved product mix. Costs and expenses also increased 23%. While domestic operating margins remained steady, those for foreign operations continued to improve reflecting productivity gains related to volume and capacity expansion. Operating profits increased over 1978 by 24%, following a 36% gain in 1978.

Revenue increases of 20% over 1978 were recorded by the food service business segment, following a 24% increase in 1978. The sales gains are attributable to an increase in the combined number of Pizza Hut and Taco Bell stores operating in 1979 (8% increase at the end of 1979 over 1978) and a 7% increase in average store revenues. Operating profits, however, declined 22% for the year versus 1978, reflecting reduced store operating margins. Compared with 1977, operating profits declined 13% in 1978. These operating margins have been affected by a decline in real volume per store (about 3%, in 1979), intensified marketing programs, increased operating expenses and, in the case of Pizza Hut, increased spending for product upgrading. The decline in real volume per store narrowed considerably from the declines in late 1978 and early 1979.

PepsiCo's transportation business segment reported a revenue increase of 15% in 1979. In 1978 revenues had increased 13%. Operating profits, however, declined 37% in 1979 versus 1978 when operating profits were 14% above the prior year. North American Van Lines operations showed substantial gains in revenues and profits in all segments of its business. Lee Way Motor Freight, however, suffered a loss attributable to sluggish volume, reflecting economic slowdown, and increased costs to improve service to customers. In addition, Lee Way was adversely affected by inadequate tariff relief to cover escalating fuel, labor and other operating costs.

The sporting goods segment recorded a decline of 5% in revenues in 1979, following a 1% decline in 1978. The decline in 1979 partly reflected management actions to prune certain low profit product lines. After

adjusting last year's loss of $7.5 million for the $9.0 million of expense related to the write-off of receivables and inventory, the operating profit in 1979 was approximately double last year's.

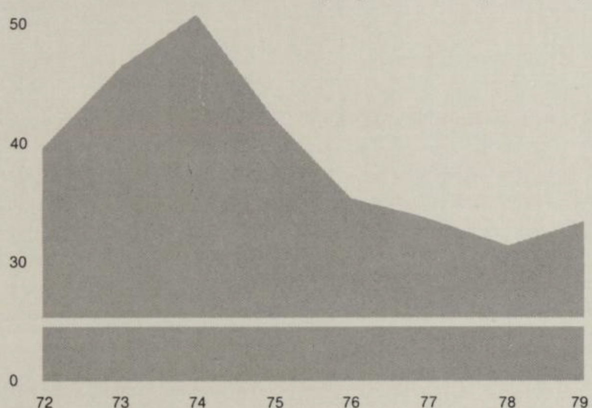
In 1979 revenues and operating profits from foreign operations continued to grow considerably faster than those from domestic operations. Foreign operating profits posted a 40% increase in 1979, after a 57% increase in 1978, while comparable domestic profits grew at 4% and 8%, respectively, reflecting the operating difficulties at Wilson, Pizza Hut, and Lee Way. As a result, foreign operations accounted for a larger share of PepsiCo's revenues and profits in 1979 than in 1978 or 1977. For the years 1978 to 1979 the foreign portion of revenues increased from 21% to 23%, and of operating profits increased from 18% to 22%.

Capital Structure

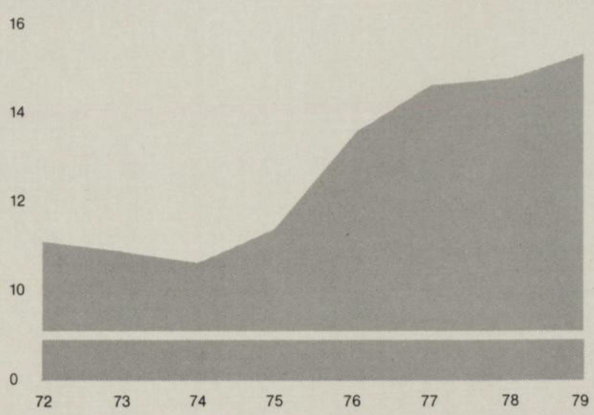
During the second half of 1979, PepsiCo implemented a planned adjustment of its capital structure, by repurchasing 3.6 million shares of its outstanding capital stock at a cost of $95 million. Total debt increased by $164 million, principally in long-term senior borrowings, and the net increase in shareholders' equity was $96 million. Accordingly, at the end of 1979, the ratio of total debt to total debt and shareholders' equity was 35.6 percent, up from 31.5 percent a year earlier. A healthy operating cash flow, coupled with a moderate amount of external financing, is expected to continue to support PepsiCo's growth and strong capital structure.

	1979	1978
	(in thousands)	
Short-term borrowings—domestic	$ 1,673	$ 671
—foreign	59,542	43,345
Total short-term borrowings	61,215	44,016
Long-term borrowings—current	11,693	5,124
—non-current		
—senior	443,295	279,092
—subordinated	12,940	39,123
Total long-term borrowings	467,928	323,339
Total borrowings	529,143	367,355
Capital lease obligations		
—current	8,125	8,140
—non-current	162,715	160,919
Total capital lease obligations	170,840	169,059
Total debt (including capital lease obligations)	699,983	536,414
Shareholders' equity	1,263,649	1,167,659
Total debt and shareholders' equity	1,963,632	1,704,073
Deferred income taxes and other liabilities and deferred credits	161,421	121,892
Total capital employed	$2,125,053	$1,825,965

Total Debt as a Percent of Total Debt and Shareholders' Equity (Percent)



Return on Assets Employed (Percent)



Stock Price Dividends

The range of market prices for PepsiCo stock, as reported by the New York Stock Exchange, and the dividends declared in each quarter of the last two years are set forth in the table below. The quarterly dividend was increased 14% in May 1979 from 25¢ per share to 28½¢ per share, following an increase in 1978 of 11% that raised the per share dividend from 22½¢ to 25¢.

Quarter	High	Low	Close	Dividend
1978				
1st Quarter	28¼	24½	26⅛	22½¢
2nd Quarter	32⅝	25⅞	30	25¢
3rd Quarter	33½	28¼	31⅞	25¢
4th Quarter	32¼	24⅜	25⅝	25¢
1979				
1st Quarter	27⅜	23¼	24¾	25¢
2nd Quarter	25½	21⅞	24	28½¢
3rd Quarter	28½	23½	27¾	28½¢
4th Quarter	28½	23⅜	25	28½¢

Capital Expenditures

Plant and equipment expenditures (including capital leases) reached a record level of $387 million in 1979, following an expenditure of $365 million in 1978. A further increase is estimated for 1980 to support the continuing growth of PepsiCo's businesses, particularly in soft drinks and snack foods.

Discussion of the Effects of Inflation

Inflation has had a pervasive effect on the American economy for some years. The high rates of inflation in recent years have greatly eroded the purchasing power of the dollar and caused distortions in conventional measures of financial performance based on historical cost accounting. Although a number of methods for measuring the impact of inflation on business enterprises have been advanced and studied by the business, regulatory, and academic communities, none of these methods has received general acceptance. Nevertheless, to provide readers of financial statements with information to assist them in assessing that impact, the Financial Accounting Standards Board (FASB) has issued Statement No. 33, *Financial Reporting and Changing Prices,* which requires the presentation of certain information on the effects of inflation on business enterprises.

The accompanying statement of earnings and five-year summary of selected data reflect certain adjustments to the amounts shown in the primary financial statements that are intended to measure the impact of inflation on PepsiCo's operations. The restated amounts are referred to as "constant dollar" amounts since the conventional measures of earnings and capital, which are expressed in dollars of varying purchasing power (historical dollars), have been restated into dollars of the same purchasing power using the Consumer Price Index for All Urban Consumers (CPI-U).

The CPI-U is a broad-based index covering a wide range of commodities such as food, housing and fuel costs. Accordingly, the restated amounts do not purport to be appraised value, replacement cost or current value of specific goods and services. In addition, restatements for inflation necessarily involve the use of assumptions and estimates. For these reasons, readers are cautioned that the following information should not be viewed as precise indicators of the effects of inflation on PepsiCo's operations.

Under the guidelines of Statement 33, only cost of sales and depreciation expense are required to be adjusted in the statement of earnings since these are the items of income which are most affected by inflation. During inflationary periods, these adjustments will always result in constant dollar income being lower than income based on historical dollars as reflected in the primary financial statements.

Besides the impact of inflation on the conventional measures of net income, inflation also affects monetary assets and liabilities, such as cash, receivables and payables. During periods of inflation, monetary assets lose purchasing power since they will buy fewer goods or services as the general level of prices rises. Conversely, holders of monetary liabilities benefit during inflation because cheaper dollars are used to satisfy these obligations in the future. For example, a 1970 debt of one dollar can be satisfied with the payment of a 1979 dollar which has the equivalent purchasing power of $.53.

Since PepsiCo had net monetary liabilities during the year, a net gain in purchasing power is included in the adjusted statement of earnings. This gain, which amounted to $79,255,000, should be viewed as part of the overall impact of inflation on operations. Since the interest rate charged by lenders is intended, in part, to compensate them for lost purchasing power during inflation, historical dollar interest expense should theoretically be reduced by the purchasing power gain from holding net monetary liabilities. However, the FASB requires that this gain be shown separately from net income in the statement of earnings.

In addition to the statement of earnings, various financial data for the past five years have been restated into average 1979 dollars and are presented in a separate schedule. The schedule shows that revenues and cash dividends declared increased each year on a constant dollar basis, indicating that these increases have been greater than the rate of inflation as measured by the change in the CPI-U.

Between year-end 1975 and year-end 1979, the actual market price of PepsiCo's common stock increased. During the same period, the market price per share, adjusted for inflation, decreased, although

year-to-year changes were volatile, moving in both directions. Considering the many influences on the stock market, it is difficult to evaluate the meaningfulness of this information.

Net assets at year-end is a restatement of shareholders' equity, as reported in the primary financial statements, adjusted to reflect the difference between the constant dollar and historical amounts for inventory, property, plant and equipment and net monetary liabilities.

In accordance with Statement 33, restated net income does not reflect an adjustment to historical dollar income tax expense, because present tax laws do not allow deductions for increased depreciation expense and cost of sales due to inflation. As a result, the effective tax rate for 1979 rises from 38.9 percent on a historical cost basis to 45.5 percent on a constant dollar basis. PepsiCo believes this result supports the contention that corrective tax legislation is urgently needed to better reflect existing economic conditions and to help stimulate real economic growth.

Another method for measuring the impact of inflation, known as current cost, is required by the FASB beginning in 1980 annual reports. This method adjusts for changes in the specific prices of resources used (inventories and fixed assets) and, therefore, may be a more relevant measure of the effects of inflation on PepsiCo's operations than the constant dollar method, which adjusts for changes in the general price level using a uniform index. However, the current cost method is considerably more complex than the constant dollar method and, in PepsiCo's opinion, needs additional testing and refinement. Consequently, PepsiCo has elected to defer the inclusion of current cost data in the annual report until such data are required next year.

Statement of Earnings
Adjusted for the Effects of General Inflation
For the Year Ended December 29, 1979

(In thousands of average 1979 dollars except per share amount)

Net Income, as reported in the primary financial statements	$264,855
Adjustments to restate costs for the effects of general inflation:	
Cost of sales, exclusive of depreciation	(26,607)
Depreciation	(37,093)
Net income adjusted for general inflation	$201,155
Net income per common share	$2.17
Net assets (shareholders' equity)	$1,583,952
Purchasing power gain on net monetary liabilities	$ 79,255

Five-Year Comparison of Selected Supplementary Financial Data
Adjusted for the Effects of General Inflation

(In average 1979 dollars)

	1979	1978	1977	1976	1975
Net sales and other operating revenues (in thousands)	$5,090,567	$4,784,142	$4,371,107	$3,964,670	$3,653,956
Cash dividends declared per common share	$1.105	$1.085	$ .988	$ .807	$ .674
Market price per common share at year-end	$23.64	$27.32	$32.71	$32.01	$31.37
Average consumer price index	217.4	195.4	181.5	170.5	161.2

Consolidated Statement of Income and Retained Earnings (in thousands except per share amounts)

PepsiCo, Inc. and Subsidiaries
Years ended December 29, 1979 and December 30, 1978

		1979	1978
Revenues	Net sales	**$4,488,032**	$3,774,628
	Other operating revenues	**602,535**	525,378
		5,090,567	4,300,006
Costs and Expenses	Cost of sales	**2,113,592**	1,825,162
	Cost of other operating revenues	**474,129**	399,337
	Marketing, administrative and other expenses	**2,022,115**	1,645,142
	Interest expense	**73,121**	51,996
	Interest income	**(25,520)**	(21,748)
		4,657,437	3,899,889
		433,130	400,117
	Provision for United States and foreign income taxes (including deferred: 1979—$25,800; 1978—$14,100)	**168,275**	174,348
Net Income		**264,855**	225,769
	Retained earnings at beginning of year	**971,654**	834,270
	Cash dividends (per share: 1979—$1.105; 1978—$.975)	**(102,449)**	(88,385)
	Retained earnings at end of year	**$1,134,060**	$ 971,654
Net Income Per Share		**$ 2.85**	$ 2.43

See accompanying notes.

Consolidated Balance Sheet (in thousands)
PepsiCo, Inc. and Subsidiaries
December 29, 1979 and December 30, 1978

		1979	1978
Assets	**Current Assets**		
	Cash	$ 38,619	$ 30,128
	Marketable securities, at cost (approximates market)	166,698	136,497
	Notes and accounts receivable, less allowance: 1979—$24,034; 1978—$27,527	557,157	433,650
	Inventories	370,111	354,611
	Prepaid expenses and other current assets	68,509	54,478
		1,201,094	1,009,364
	Long-Term Receivables and Investments		
	Long-term receivables	37,170	47,297
	Investments	19,085	22,503
		56,255	69,800
	Property, Plant and Equipment		
	Land	101,755	91,699
	Buildings	390,612	322,137
	Machinery and equipment	1,255,823	1,002,120
	Capital leases	186,792	180,764
	Bottles and cases, net of customers' deposits: 1979—$49,460; 1978—$36,136	68,350	41,698
		2,003,332	1,638,418
	Less accumulated depreciation and amortization	602,081	500,674
		1,401,251	1,137,744
	Goodwill	167,797	157,603
	Other Assets	61,181	44,858
		$2,887,578	$2,419,369

See accompanying notes.

		1979	1978
Liabilities and Shareholders' Equity	**Current Liabilities**		
	Notes payable (including current installments on long-term debt and capital lease obligations)	**$ 81,033**	$ 57,280
	Accounts payable	**364,525**	263,844
	United States and foreign income taxes	**62,569**	69,481
	Other accrued taxes	**41,367**	35,476
	Other current liabilities	**294,064**	224,603
		843,558	650,684
	Long-Term Debt	**456,235**	318,215
	Capital Lease Obligations	**162,715**	160,919
	Other Liabilities and Deferred Credits	**54,821**	41,592
	Deferred Income Taxes	**106,600**	80,300
	Shareholders' Equity		
	Capital stock, par value 5¢ per share; authorized 135,000,000 shares; issued: 1979—94,601,214 shares; 1978—93,075,103 shares	**4,730**	4,654
	Capital in excess of par value	**219,951**	191,351
	Retained earnings	**1,134,060**	971,654
	Less cost of 3,647,000 repurchased shares	**(95,092)**	—
		1,263,649	1,167,659
		$2,887,578	$2,419,369

Consolidated Statement of Changes in Financial Position (in thousands)
PepsiCo, Inc. and Subsidiaries
Years ended December 29, 1979 and December 30, 1978

		1979	1978
Financial Resources Provided	Operations		
	Net income	**$ 264,855**	$ 225,769
	Depreciation and amortization	**142,053**	117,019
	Deferred income taxes	**26,300**	23,200
	Other	**12,758**	12,495
	Total from operations	**445,966**	378,483
	Long-term debt and capital lease obligations	**189,429**	65,324
	Capital stock (including conversion of debt)	**28,676**	26,874
	Property disposals	**17,419**	19,667
		681,490	490,348
Financial Resources Applied	Plant and equipment	**386,885**	364,539
	Dividends	**102,449**	88,385
	Repurchase of capital stock	**95,092**	—
	Long-term debt	**51,095**	58,015
	Bottles and cases, net	**26,304**	19,153
	Other	**20,809**	24,130
		682,634	554,222
	Decrease in working capital	**$ (1,144)**	$ (63,874)
Increase (Decrease) in Working Capital by Element	Cash	**$ 8,491**	$ (234)
	Marketable securities	**30,201**	(101,649)
	Notes and accounts receivable	**123,507**	59,251
	Inventories	**15,500**	38,734
	Prepaid expenses and other current assets	**14,031**	16,247
	Notes payable	**(23,753)**	(8,712)
	Accounts payable	**(100,681)**	(55,136)
	United States and foreign income taxes	**6,912**	17,784
	Other accrued taxes	**(5,891)**	(4,043)
	Other current liabilities	**(69,461)**	(26,116)
	Decrease in working capital	**(1,144)**	(63,874)
Working Capital at Beginning of Year		**358,680**	422,554
Working Capital at End of Year		**$ 357,536**	$ 358,680

Note 1/Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of PepsiCo, Inc. and its subsidiaries. All significant intercompany transactions have been eliminated.

Inventories. Inventories are stated at the lower of cost (computed on the average or first-in, first-out method) or net realizable value.

Property, Plant, and Equipment. Land, buildings, and machinery and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the respective assets. Upon the sale or retirement of property, the property accounts and related depreciation reserves are appropriately adjusted and any profit or loss is reflected in income. Maintenance and repairs are charged to expense as incurred.

Valuation of returnable bottles and cases is based on periodic physical inventories of those in-plant and on estimates of those in-trade. In-plant and estimated in-trade breakage, less related customers' deposits, is charged to cost of sales. Returnable bottles and cases are adjusted to deposit value within one year of acquisition. In foreign operations, returnable bottles and cases and the related customer deposits are translated into U.S. dollars at current rates of exchange.

Goodwill. Goodwill represents the excess of cost over net tangible assets of companies acquired, certain operating rights and trademarks. Approximately $67 million, relating to acquisitions made prior to November 1, 1970, is not amortized unless there is an impairment of value. The remaining $101 million is amortized over appropriate periods not exceeding 40 years.

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year, generally in relation to sales, and, except for materials in inventory and prepayments, are fully expensed by the end of the year in which the cost is incurred.

Income Taxes. Deferred income taxes arise from the deferral of investment tax credits, which are amortized over the estimated useful lives of the related assets, and from timing differences between financial and tax reporting, principally depreciation.

Taxes which would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed earnings of subsidiaries operating outside the U.S. have been reinvested indefinitely in foreign operations. Accordingly, no provision has been made for additional taxes, not material in amount, that might be payable with respect to such earnings in the event of remittance.

Fiscal Year. PepsiCo's fiscal year ends on the last Saturday in December. Fiscal year 1979 ended on December 29, 1979. Fiscal year 1978 ended on December 30, 1978.

Net Income Per Share. Net income per share is computed by dividing net income by the average number of common shares and common share equivalents outstanding during each year. The conversion of all convertible debentures would not result in a material dilution.

Audit Committee of the Board of Directors. The Audit Committee of the Board, composed entirely of outside directors, meets on a regular basis with PepsiCo's financial management, internal auditors, and independent accountants to review internal and external audit plans, activities, and recommendations, as well as PepsiCo's financial controls.

Note 2/Operations In Different Industries

Information related to revenues and operating profit for 1979 and 1978 for PepsiCo's business segments is presented on page 33. Additional information is provided below.

Business Segments (in millions)

	Identifiable Assets				Depreciation and Amortization Expense		Capital Expenditures	
	1979	1978	1977	1976	1979	1978	1979	1978
	$	$	$	$	$	$	$	$
Beverage	958.6	749.9	566.9	475.9	45.9	35.0	100.9	123.8
Food products	640.1	475.9	410.0	358.6	37.0	31.8	159.5	75.3
Food service	474.0	423.1	341.7	279.9	29.8	24.5	71.5	99.5
Transportation	292.4	279.9	264.5	231.9	20.0	17.3	37.2	46.6
Sporting goods	236.2	268.5	253.2	235.1	5.0	4.2	4.5	8.7
Corporate	286.3(1)	222.1(1)	294.0(1)	272.2(1)	4.4	4.2	13.3	10.6
Total	2,887.6	2,419.4	2,130.3	1,853.6	142.1	117.0	386.9	364.5
Foreign portion	839.7(2)	601.7(2)	535.5(2)	447.9(2)	27.9	22.7	78.2	72.3

(1) Corporate assets are principally marketable securities and administrative office buildings.
(2) PepsiCo's investment in foreign subsidiaries and branches outside the U.S. was $313.0, $297.9, $284.8 and $271.3 in 1979, 1978, 1977 and 1976, respectively.

Foreign exchange gains in 1979 were $5,700,000 before related income taxes. In 1978 a pretax loss of $11,600,000 was sustained of which approximately $8,900,000 was attributable to the 60,000,000 Swiss franc loan repaid in December 1978.

Note 3/Inventories

Inventories at December 29, 1979 and December 30, 1978 are summarized as follows:

	1979	1978
	(in thousands)	
Finished goods	$151,631	$146,399
Raw materials, supplies and in-process	206,009	196,718
Equipment held for resale	12,471	11,494
	$370,111	$354,611

Note 4/Notes Payable and Long-term Debt

Notes payable at December 29, 1979 and December 30, 1978 comprised the following:

	1979	1978
	(in thousands)	
Current maturities on long-term debt and capital lease obligations	$19,818	$13,264
Other notes payable (primarily to foreign banks)	61,215	44,016
	$81,033	$57,280

At December 29, 1979 and December 30, 1978, long-term debt (less current maturities) consisted of:

	1979	1978
	(in thousands)	
Commercial paper and bank loans (1979-13½%; 1978-10%)	$106,000	$ 38,000
9¼% notes due 1984	100,000	—
8¼% notes due 1985	100,000	100,000
8⅝% notes due 1981	75,000	75,000
4¾% convertible subordinated debentures ($2,500,000 due annually from 1993 to 1995, with balance due in 1996)	8,364	34,202
Other	66,871	71,013
Total long-term debt	$456,235	$318,215

At December 29, 1979, PepsiCo had a revolving credit agreement with a group of commercial banks, providing for loans up to a maximum of $200 million, maturing January 3, 1983, which supports the classification of commercial paper and bank loans as long-term debt. As of February 29, 1980, the maximum revolving credit availability was increased to $325 million.

The amounts of long-term debt maturing after 1980 are as follows: 1981, $91,486,000; 1982, $5,897,000; 1983, $110,755,000; 1984, $104,536,000; and subsequently, $143,561,000.

The debt agreements to which PepsiCo is a party include various restrictions, none of which is currently significant to PepsiCo.

Note 5/Capital Stock and Capital In Excess of Par Value

The changes in capital stock and capital in excess of par value are summarized below:

	Capital Stock		Capital in Excess of Par Value	Repurchased Shares
	Shares	Amount		
			(dollars in thousands)	
Balance at December 31, 1977	91,794,150	$4,590	$164,541	—
Conversion of debentures and notes	751,362	38	15,814	—
Exercise of stock options and warrants	529,591	26	10,996	—
Balance at December 30, 1978	93,075,103	4,654	191,351	—
Conversion of debentures and notes	1,220,364	61	25,774	—
Exercise of stock options and warrants	305,747	15	2,826	—
Balance issued at December 29, 1979	94,601,214	4,730	219,951	—
Shares repurchased	(3,647,000)	—	—	$(95,092)
Balance outstanding at December 29, 1979	90,954,214	$4,730	$219,951	$(95,092)

Shares reserved at December 29, 1979 were as follows:

Incentive plan	4,472,127
Stock option plans	1,243,383
Convertible subordinated debentures (at $21.17 per share)	395,087
	6,110,597

At December 29, 1979, options were outstanding on 1,243,383 shares (of which 277,610 were then exercisable), having an aggregate option price of $30,427,000. In 1979, options for 142,997 shares were exercised having an aggregate option price of $2,193,000; and options for 125,317 shares were cancelled.

In 1979, PepsiCo shareholders approved the 1979 Incentive Plan. The 1979 Plan carries forward the principal features of the 1972 Performance Share Plan and replaced the 1975 Stock Option Plan with an incentive

stock unit program. Under the 1979 Plan the Compensation Committee of the Board of Directors may award performance shares (each unit being limited to the market value of a share of PepsiCo capital stock on date of grant), and an equal number of stock options to purchase capital stock to senior management employees, and award incentive stock units, rather than options, to other management employees. Performance shares are not paid unless PepsiCo achieves stated cumulative growth rates in earnings per share over the four-year period following the award. Incentive stock units are rights to receive shares of capital stock or their value, which vest over a period of time, without payment of any amounts to PepsiCo or satisfaction of any performance objectives.

Payments for performance share units and incentive stock units may be made in cash or in capital stock, or a combination thereof, as the Committee decides. A participant's award is forfeited unless he remains continuously in the employ of PepsiCo during the award period, except in the case of death, disability, or retirement. Participants may elect in advance to defer receipt of payments of performance share awards. The aggregate number of shares of capital stock which may be delivered or purchased under the Plan may not exceed 4,600,000 shares. By January 1980, 812,394 performance share units had been earned by participants under the 1972, 1974 and 1976 awards. During 1978, additional performance share units were awarded, of which 429,429 were outstanding at December 29, 1979. During 1979, incentive stock units were awarded, of which 236,848 were outstanding at December 29, 1979. The cost of the awards under the 1972 Performance Share Plan and the 1979 Incentive Plan is being charged to income ($5,220,000 in 1979 and $5,214,000 in 1978) over the applicable term of the award period.

Note 6/Leases and Commitments

PepsiCo and its subsidiaries have noncancellable commitments for rental of restaurant facilities, office space, plant and warehouse facilities, transportation equipment and other personal property under both capital and operating leases. Certain franchised restaurants are leased and subsequently subleased to franchisees. Lease commitments on capital and operating leases expire at various dates to 2021 and 2036, respectively. Following is an analysis of leased property under capital leases by major classes at December 29, 1979 and December 30, 1978.

	1979	1978
	(in thousands)	
Buildings	$178,253	$173,504
Machinery and equipment	8,539	7,260
	186,792	180,764
Less accumulated amortization	57,740	52,316
	$129,052	$128,448

Following is a schedule by year of future minimum lease commitments and sublease receivables under all noncancellable leases (in thousands):

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1980	$ 26,244	$ 36,882	$ (3,442)	$ (4,122)
1981	25,513	28,517	(3,407)	(3,906)
1982	24,381	25,897	(3,347)	(3,746)
1983	23,216	22,450	(3,344)	(3,637)
1984	22,479	19,313	(3,351)	(3,505)
Later years	229,653	159,708	(32,023)	(26,854)
Total minimum lease commitments (receivables)	$351,486	$292,767	$(48,914)	$(45,770)

The present value of minimum lease payments for capital leases amounts to $170,840,000 after deducting $5,734,000 for estimated executory costs (taxes, maintenance and insurance) and $174,912,000 representing imputed interest. The present value of minimum sublease receivables amounts to $23,218,000 after deducting $25,696,000 of unearned income. Total rental expense for all operating leases for years ended December 29, 1979 and December 30, 1978 was $57,549,000 and $47,434,000, respectively. Total rental income from all operating subleases for years ended December 29, 1979 and December 30, 1978 was $5,953,000 and $5,255,000, respectively.

At December 29, 1979, PepsiCo and its subsidiaries were contingently liable under guarantees aggregating $55,000,000.

Note 7/Income taxes

U.S. and foreign income taxes have been provided at less than the statutory U.S. federal rate of 46% for 1979 (48% for 1978) since unremitted earnings of foreign operations are subject to a lower aggregate tax rate. This is principally because a substantial portion of the earnings of a U.S. subsidiary operating in Puerto Rico (which has been invested in marketable securities) is not taxable.

Note 8/Pensions

PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees (mostly non-union) and certain of its employees outside the U.S. PepsiCo's policy is to accrue and fund current cost and interest, as well as amortization of prior service cost over 30 years. The excess of vested benefits over fund assets of two of the plans was approximately $3,000,000. Pension expense for all plans was approximately $36,700,000 in 1979 and $31,800,000 in 1978.

Note 9/Litigation

In 1971, the Federal Trade Commission (the "FTC") issued complaints against PepsiCo and its principal competitors, alleging that exclusive territorial restrictions imposed upon soft drink bottlers in the United States unreasonably restrain trade. In 1975, the FTC Administrative Law Judge ruled that exclusive territories are legally permissible. In April 1978, the FTC reversed that decision. PepsiCo appealed to the United States Court of Appeals and the FTC order was stayed during the appeal. The Court of Appeals has not yet ruled. Management and its counsel cannot evaluate the future financial or business effects, if any, on its domestic soft drink business should the FTC's order be modified or affirmed by the courts.

PepsiCo and its subsidiaries are involved in various other litigated matters but believe that none will have a material effect on the consolidated financial statements.

PepsiCo intends a vigorous defense of all these matters.

Note 10/Quarterly Financial Data (Unaudited)

Summarized quarterly financial data (in thousands except per share amounts) for 1979 and 1978 are as follows:

	1979 Quarters Ended				
	March 24 (12 Weeks)	June 16 (12 Weeks)	Sept. 8 (12 Weeks)	Dec. 29 (16 Weeks)	Total
Net sales and other operating revenues	$1,014,232	$1,183,746	$1,286,378	$1,606,211	$5,090,567
Gross profit	503,521	585,073	639,362	774,890	2,502,846
Net income	45,165	72,578	80,594	66,518	264,855
Net income per share	.48	.78	.86	.73	2.85

	1978 Quarters Ended				
	March 25 (12 Weeks)	June 17 (12 Weeks)	Sept. 9 (12 Weeks)	Dec. 30 (16 Weeks)	Total
Net sales and other operating revenues	$833,787	$1,023,041	$1,098,128	$1,345,050	$4,300,006
Gross profit	415,403	499,372	532,271	628,461	2,075,507
Net income	37,044	59,801	69,120	59,804	225,769
Net income per share	.40	.65	.74	.64	2.43

Note 11/Replacement Cost Information (Unaudited)

Pursuant to the requirements of the Securities and Exchange Commission, PepsiCo has made certain estimates on a replacement cost basis of its fixed assets, inventories, cost of sales and depreciation expense. The computations were based on the hypothetical assumption that PepsiCo would replace its entire productive capacity and inventories at year-end. As would be expected in periods of rising prices, such computations reflect generally higher replacement cost amounts in 1979 and 1978 than the corresponding historical amounts as reported in the primary financial statements (see supplementary information included in Form 10-K for replacement cost details).

Report of Chief Financial Officer

To Our Shareholders:

PepsiCo, Inc. is responsible for the integrity and objectivity of its financial statements. To fulfill this responsibility, PepsiCo maintains an accounting system and related controls directed towards the safeguarding of assets and the reliability of financial information. An integral part of such controls is an internal audit program designed to monitor compliance with PepsiCo's policies and procedures.

The international accounting firm of Arthur Young & Company has been retained to examine the financial statements of PepsiCo and to report to our shareholders the results of that examination. Representatives of that firm meet regularly with the Audit Committee of the Board of Directors, composed entirely of non-employee directors, to discuss the results of their audit which includes a review and evaluation of PepsiCo's internal controls and financial reporting. Arthur Young & Company's report to you on our financial statements is presented below.

H. A. Schaefer

Herman A. Schaefer
Executive Vice President
Finance and Administration

Report of Certified Public Accountants

Board of Directors and Shareholders
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 29, 1979 and December 30, 1978, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 29, 1979 and December 30, 1978, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

277 Park Avenue
New York, New York
February 19, 1980

Ten-Year Comparative Summary
PepsiCo, Inc. and Subsidiaries

		1979	1978
Summary of Operations (in thousands except per common share)	Net sales and other operating revenues	**$5,090,567**	$4,300,006
	Cost of sales and other operating revenues	**2,587,721**	2,224,499
	Marketing, administrative and other expenses	**2,022,115**	1,645,142
	Interest expense	**73,121**	51,996
	Interest income	**(25,520)**	(21,748)
		4,657,437	3,899,889
		433,130	400,117
	U.S. and foreign income taxes	**168,275**	174,348
		264,855	225,769
	Equity in net income of PepsiCo Leasing Corporation	**—**	—
	Net income	**264,855**	225,769
	Per common share	**$ 2.85**	$ 2.43
	Cash dividends declared	**102,449**	88,385
	Per common share	**$1.105**	$ .975
	Additions to property, plant and equipment	**386,885**	364,539
	Depreciation and amortization	**142,053**	117,019
	Average common shares outstanding	**92,808**	92,883
Year-End Position (in thousands except per common share)	Working capital	**357,536**	358,680
	Property, plant and equipment—net	**1,401,251**	1,137,744
	Total assets	**2,887,578**	2,419,369
	Long-term debt*	**618,950**	479,134
	Shareholders' equity	**1,263,649**	1,167,659
	Per common share	**$13.89**	$12.55
	Common shares outstanding	**90,954**	93,075
Statistics and Ratios	Current assets to current liabilities	**1.4 to 1**	1.6 to 1
	Return on average shareholders' equity	**21.8%**	20.8%
	Return on revenues	**5.2%**	5.3%
	Long-term debt* to total debt and shareholders' equity	**31.5%**	28.1%
	Total debt* to total debt and shareholders' equity	**35.6%**	31.5%
	Total debt* to total capital employed**	**32.9%**	29.4%
	Employees	**105,000**	95,000
	Shareholders	**53,000**	55,000

*Includes capital leases

**Total capital employed is total debt, shareholders' equity, deferred income taxes and other liabilities and deferred credits.

1977	1976	1975	1974	1973	1972	1971	1970
$3,649,291	$3,109,366	$2,709,373	$2,408,808	$1,938,851	$1,578,802	$1,381,883	$1,225,015
1,881,742	1,639,937	1,487,922	1,361,701	1,055,334	840,099	746,436	670,470
1,392,195	1,153,400	970,049	835,959	699,864	583,310	498,844	437,941
45,983	45,000	52,096	55,998	36,053	17,963	18,630	18,834
(25,643)	(26,034)	(21,292)	(18,313)	(13,701)	(9,066)	(8,075)	(5,851)
3,294,277	2,812,303	2,488,775	2,235,345	1,777,550	1,432,306	1,255,835	1,121,394
355,014	297,063	220,598	173,463	161,301	146,496	126,048	103,621
158,273	135,328	98,964	75,536	74,494	67,852	57,096	44,448
196,741	161,735	121,634	97,927	86,807	78,644	68,952	59,173
—	—	1,852	2,345	2,699	2,638	990	418
196,741	161,735	123,486	100,272	89,506	81,282	69,942	59,591
$ 2.14	$ 1.79	$ 1.38	$ 1.13	$ 1.01	$ .93	$ .82	$ .72
67,021	47,764	37,085	31,755	27,783	24,108	23,592	22,144
$ .825	$ .633	$ .500	$ .433	$ .380	$ .333	$ .333	$ .333
275,116	191,767	139,838	194,614	182,567	87,262	65,897	77,942
93,723	79,057	72,739	64,832	54,031	41,334	36,128	30,279
92,046	90,600	89,288	89,008	88,798	87,306	85,427	82,429
422,554	424,817	369,772	305,108	172,426	169,660	150,613	95,212
885,328	713,191	614,803	590,749	495,553	374,368	335,721	302,455
2,130,294	1,853,599	1,660,577	1,603,892	1,358,572	1,064,550	933,778	844,768
467,808	433,887	463,857	482,491	345,661	257,305	226,994	208,566
1,003,401	868,480	719,532	630,367	560,004	497,465	422,934	357,076
$10.93	$ 9.50	$ 8.09	$ 7.12	$ 6.34	$ 5.65	$ 4.91	$ 4.32
91,794	91,420	88,894	88,563	88,396	88,003	86,119	82,745
1.7 to 1	1.9 to 1	1.9 to 1	1.7 to 1	1.4 to 1	1.7 to 1	1.7 to 1	1.4 to 1
21.0%	20.4%	18.3%	16.8%	16.9%	17.7%	17.9%	17.8%
5.4%	5.2%	4.6%	4.2%	4.6%	5.1%	5.1%	4.9%
30.8%	32.0%	37.0%	38.2%	33.0%	31.5%	31.6%	31.4%
34.0%	35.9%	42.6%	50.1%	46.5%	39.0%	41.1%	46.3%
32.2%	34.2%	40.2%	47.6%	43.8%	36.4%	38.6%	45.0%
83,000	77,000	71,000	68,000	63,000	51,000	46,000	42,000
52,000	48,000	49,000	51,000	52,000	53,000	53,000	55,000

Directors

Victor A. Bonomo
Executive Vice President, Operations, PepsiCo, Inc.

Frank L. Carney
Chairman of the Board and President, Pizza Hut, Inc. and Vice President, Food Service, PepsiCo, Inc.

William T. Coleman, Jr.
Partner, O'Melveny & Myers

Clifton C. Garvin, Jr.
Chairman of the Board and Chief Executive Officer, Exxon Corporation

Donald M. Kendall
Chairman of the Board and Chief Executive Officer, PepsiCo, Inc.

Herman W. Lay
Chairman of the Executive Committee, PepsiCo, Inc.

T. Vincent Learson
Member of the Board of Directors and Retired Chairman, International Business Machines Corporation

Andrall E. Pearson
President and Chief Operating Officer, PepsiCo, Inc.

Herman A. Schaefer
Executive Vice President, Finance and Administration, PepsiCo, Inc.

Robert H. Stewart III
Chairman of the Board, First International Bancshares, Inc.

Peter K. Warren
Chairman, PepsiCo International and Vice President, International Beverages, PepsiCo, Inc.

Dr. Arnold R. Weber
President, Colorado University

Caspar W. Weinberger
Member of the Board of Directors and Vice President, Bechtel Power Corporation, and Bechtel Incorporated

Committees

Audit Committee:
Messrs. Learson (chairman), Coleman, Garvin, Stewart, Weber and Weinberger

Compensation Committee:
Messrs. Stewart (chairman), Coleman, Garvin, Learson, Weber and Weinberger

Executive Committee:
Messrs. Lay (chairman), Bonomo, Garvin, Kendall, Learson, Pearson, Schaefer, Stewart and Warren

Officers

Donald M. Kendall
Chairman of the Board and Chief Executive Officer

Herman W. Lay
Chairman of the Executive Committee

Andrall E. Pearson
President and Chief Operating Officer

Victor A. Bonomo
Executive Vice President, Operations

Herman A. Schaefer
Executive Vice President, Finance and Administration

Richard I. Ahern
Vice President, International Bottling

Richard J. Caley
Vice President, Sporting Goods

D. Wayne Calloway
Vice President, Snack Foods (U.S.)

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Vice President, Food Service

Cartha D. DeLoach
Vice President, Corporate Affairs

Gerald J. Fischer
Vice President, Corporate Development

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Vice President, Research and Technical Services

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Vice President, General Counsel and Secretary

Harvey Luppescu
Vice President, Tax Administration

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Vice President and Treasurer

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Vice President, Financial Management and Planning

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Vice President, Concentrate Operations

Harvey C. Russell
Vice President, Community Affairs

Leonard Schutzman
Vice President and Controller

John Sculley
Vice President, Beverage Operations (U.S.)

Edward F. Walsh
Vice President, Personnel

Peter K. Warren
Vice President, International Beverages

Vincent M. Burke
Assistant Controller

Thomas J. Galligan III
Assistant Controller

Douglas E. Moran
Assistant Controller

Wendell W. Gunn
Assistant Treasurer

Peter D. Houchin
Assistant Treasurer

Richard Leberman
Assistant Treasurer

Walter S. Rosenstein
Assistant Secretary

Executive Offices
PepsiCo, Inc.
Purchase, New York 10577
(914) 253-2000

Principal Divisions and Subsidiaries

Pepsi-Cola Company
Purchase, New York 10577
John Sculley, President

Frito-Lay, Inc.
Frito-Lay Tower, Exchange Park
Dallas, Texas 75235
D. Wayne Calloway, President

PepsiCo International
Purchase, New York 10577
Peter K. Warren, Chairman

Robert H. Beeby
President

Pizza Hut, Inc.
9111 East Douglas
Wichita, Kansas 67207
Frank L. Carney, Chairman

North American Van Lines, Inc.
5001 U.S. 30 West
Fort Wayne, Indiana 46818
Kenneth Maxfield, President

Lee Way Motor Freight, Inc.
3000 West Reno
Oklahoma City, Oklahoma 73108
Richard L. Frucci, President

Wilson Sporting Goods Co.
2233 West Street
River Grove, Illinois 60171
Richard J. Caley, President

Taco Bell
17381 Red Hill Avenue
Irvine, California 92714
Robert L. McKay, President

PepsiCo Foods International
4141 Blue Lake Circle
Suite 260
Dallas, Texas 75234
John J. Kickham, President

Pepsi-Cola Bottling Group
Purchase, New York 10577
Robert G. Dettmer, President

United Beverages International
Purchase, New York 10577
Richard I. Ahern, President

PepsiCo Wines and Spirits International
Purchase, New York 10577
Norman Heller, President

PepsiCo Building Systems
3031 La Jolla Street
Anaheim, California 92806
Thomas Orr, President

Capital Stock
Shares of PepsiCo Capital Stock are traded on the New York and Midwest Stock Exchanges.

Form 10-K
Copies of PepsiCo's Form 10-K Report to the Securities and Exchange Commission may be obtained without charge from the Director of Corporate Communications, PepsiCo, Inc., Purchase, N.Y. 10577

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New York, New York 10017

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Dallas, Texas 75283
(214) 744-8464

Dividend Reinvestment Agent
Citibank, N.A.
111 Wall Street
New York, New York 10043
(212) 558-7409

Annual Meeting
The Annual Meeting of shareholders will be held at the offices of the Corporation, Purchase, New York, at 10:00 a.m. (E.D.T.) Wednesday, May 7, 1980. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not a part of such proxy solicitation.

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